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FORBES

July 5, 1982

INTERNATIONAL
BUSINESS

The 100
Largest U.S.
Multinationals

The 100 Largest
Foreign Investments
in the U.S.

The 100
Largest Foreign
Corporations

JULY 5, 1982

TWO DOLLARS FIFTY CENTS

Forbes



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The Mercedes-Benz 240D: the \$23,000* sedan based on the timeless idea that function should always come first.

Frivolity is out. The 240 D is one and a half tons of cold engineering logic—an automobile meant to reflect not your wealth but your perspicacity.

People choose the 240 D Sedan because—like Mercedes-Benz engineers—they believe that functional efficiency seldom comes from shortcuts.

The 240 D is powered by one of the *saner*-sized engines in its class: a four cylinder diesel engine, displacing just 2.4 liters.

Few engines of any size are more expensively machined and balanced. (All pistons and connecting rods, for instance, are individually balanced as a set.) Such precision helps the 240 D's engine face the prospect of long, hard, heavy use unafraid.

This power plant is so sophisticated in design that a built-in device adjusts the fuel injection rate *barometrically*, to help the 240 D run efficiently at 7,000 feet or at sea level.

Yet it is so simple in operation that for its first 10,000 miles, total scheduled maintenance is about three hours.

\$558 for 10,000 miles?

The 240 D lets you choose between maximum convenience and maximum mileage with four-speed automatic or four-speed manual versions.

Even the automatic hardly guzzles fuel. In fact, at an average cost of \$1.34-per-gallon for diesel fuel in the U.S. and with the EPA mileage figure of 24 mpg estimated,** the automatic 240 D should take you 10,000 miles for about \$558.

No gadgets, no baubles

The 240 D is engineered to

take the strains of high mileage and hard driving in stride.

The car's lack of shimmy and shake on ugly roads owes much to its rigid, welded steel fuselage—a unit body.



The efficiency of tenacious roadholding is standard.

Its four-wheel disc brakes (with 456 sq. in. of swept area) could stop a vehicle many times its size and weight.

The 240 D is not shy of potholed roads, humpbacked roads, or twisty roads. Sold as it is in 90 countries—few blessed with superhighways—it could not afford to be.

Gadgets and baubles are absent. What could these add to efficiency? An electronic cruise control is provided, allowing you to hold a steady 55-mph—without fuel-wasting ups and downs.

Because the 240 D is meant to take efficient care of its occupants, it incorporates 120 safety features. Many of these satisfy Federal laws. And many more are incorporated to satisfy the Mercedes-Benz obsession with safety.

Robots, hands, eyes

A well-built car is usually a more efficient car. It is for this

reason that Mercedes-Benz lavishes such care on the 240 D's construction and finish.

It does not feel tinny. The body is not bolted together but fused together as a unit structure—4,786 welds strong.

Robots precision-weld the body. Since robots can't smooth body seams and joints, skilled workmen do.

The efficiency of value

The 240 D is a sensible but not a Spartan automobile. Even air conditioning is standard, and the interior is accented with a traditional wood grain that is created by *real* wood.

Mercedes-Benz cars in America have written such a legend of retained value that this must be considered alongside that \$23,000 price tag. These cars—including the 240 D—have been shown to retain 80 percent of their original value after the first three years.

In this category, as in others, there is simply no other automobile like the Mercedes-Benz 240 D Sedan. At \$23,000 or any price.

*Approximate suggested advertised delivered price at port of entry.

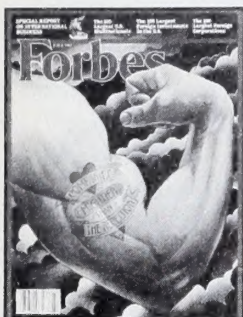
**EPA estimate for comparison purposes. The mileage you get may vary with trip length, speed and weather.

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**Engineered like no other
car in the world**

July 5, 1982
Volume 130,
Number 1



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"We manage the complex with the



Tell us about the Credit Union Center.

We're world headquarters for the credit union organization. Our new Credit Union Center was dedicated in 1980 after a major expansion program that combines energy-efficient building design with a Johnson Controls JC/85 computerized building automation system. We're running about 650,000 square feet of office space and another 600,000 square feet of underground parking for 1,450 cars.



Why did you choose the Johnson Controls JC/85?

We determined it was the best available. We need to know what's going on in all three buildings before the employees do. Especially in an emergency situation. The only way to manage a complex like this is to have a system that monitors and controls all HVAC, lighting, firesafety, and security systems from one location. The JC/85 even keeps records of all energy management activities which eliminates mountains of paperwork.



What does centralized control do for you?

Monitoring and controlling key building systems from a central location is a big step. We have three buildings spread out on 32 acres. Walking to one building and back is half a mile! With the JC/85 we can tell what and where the problems are so we can carry the proper tools. That saves us a lot of steps and enables us to take care of any problem in a hurry. It also frees us to devote more time to preventive maintenance.



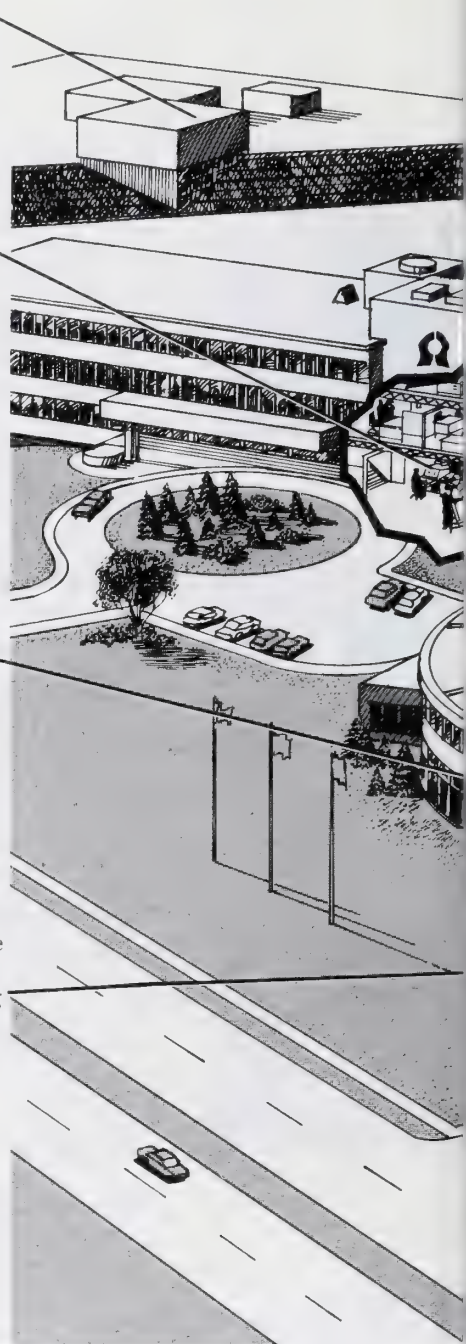
Earlier you mentioned energy management.

Yes. Our energy costs are kept in line through various computerized strategies. For example, one JC/85 program sheds low priority electrical loads when usage threatens to exceed preset demand limits. The JC/85 also gives us time programmed start/stop, duty cycling and optimal start/stop of equipment. Originally we projected annual energy savings of 12% with the JC/85. But now, I expect that the annual energy savings will look more like 18%.



Any other benefits?

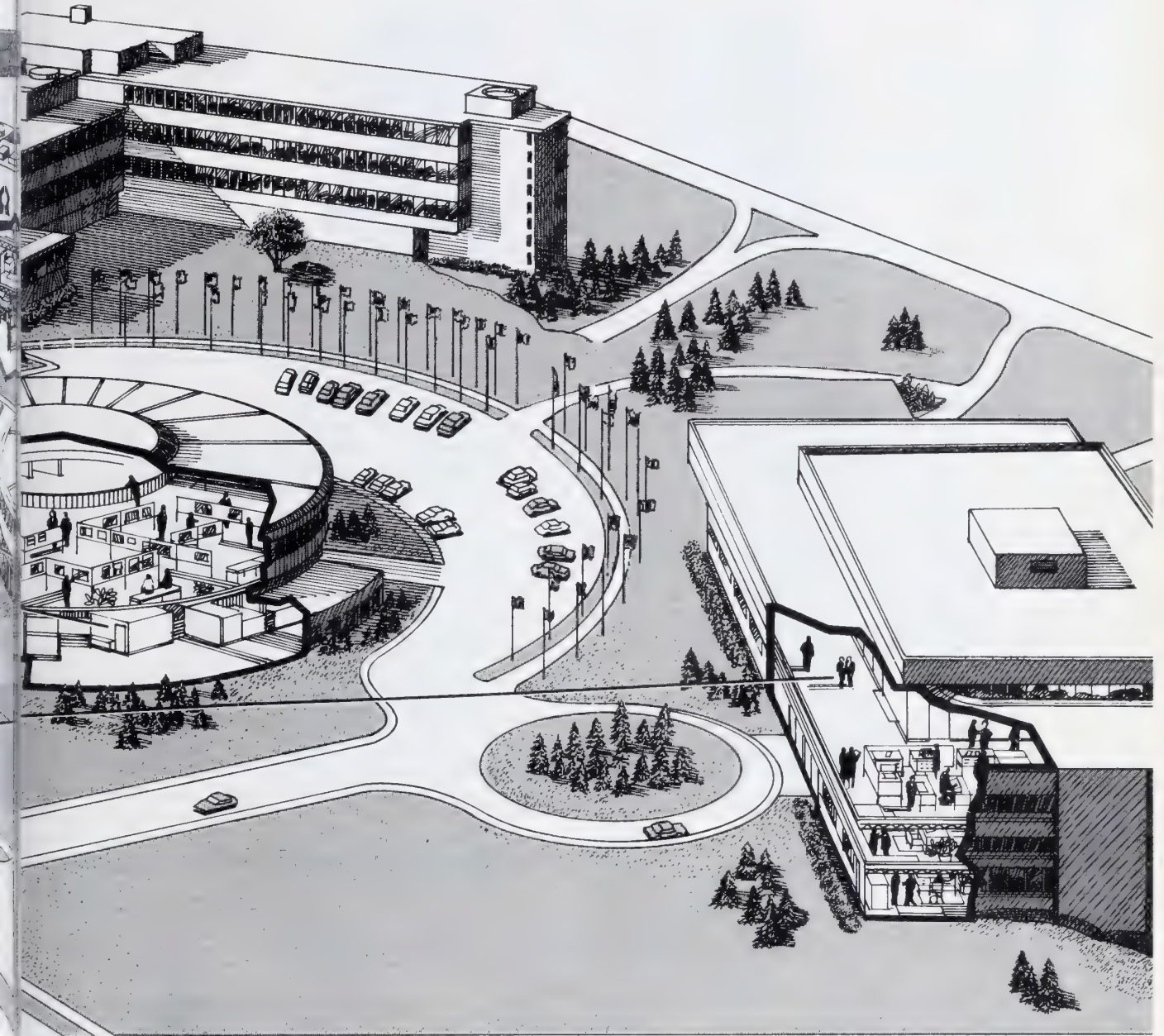
Besides energy savings, centralized control, employee protection and preventive maintenance, I see another major advantage. When I assign someone to the system, the person doesn't have to be a computer or HVAC expert, just a good rational thinker. The JC/85's color graphics and instructions in plain English make the operation very simple. We're excited about that!



Managing Energy, Comfort & Protection

C/85. It's the best that's available."

Donald R. Hahn
VP-Building Engineering
CUNA



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Which is the road to war?

The antinukes have wrapped themselves in the mantle of church, children and clean air to the point where one sounds almost blood-thirsty opposing unilateral nuclear disarmament. (How come you guys hate kids?) We don't hate kids but we're certain the Kremlin is deterred more by the threat of what our missiles could do to Moscow than by the spectacle of Bruce Springsteen belting out peace songs in New York's Central Park. In this issue, Columnist John Train interviews a famous Frenchman who argues—with Gallic clarity—that the road to war is paved with good intentions. "Naïveté can kill you" begins on page 45.

The British have landed

Just as the Argentines have learned that the British Lion isn't quite so toothless as they hoped, the big money-managing U.S. banks may soon get a similar demonstration of British prowess. Our European Bureau Manager Lawrence Minard writes that the wily Brits covet a piece of the U.S. pension-fund business and have already established more than one bridgehead there. Meanwhile, Contributing Editor Richard Phalon reports that most U.S. money managers are skeptical right now about investing in Western Europe. It's not that they are unaware of the opportunities there; they just don't like much of what they see. Both articles and much more are part of our annual Spotlight on International Business. We were a bit nervous about Minard's major contribution to the special report. His wife, Elizabeth Bailey, a former FORBES writer, was expecting a baby momentarily. However, she respected our deadline and held off until he had telexed the manuscript to New York; 24 hours later she gave birth to a girl. Thanks for cooperating, Elizabeth. Minard's story starts on page 110.

It can happen here

Here's a company that puts workers ahead of stockholders and yet earns 19% on equity capital. Some people complain that it is a sweatshop, yet worker turnover is low. It pays high wages and gets high productivity. Its workers once voted down a paid dental plan because they thought it would cost the company too much. We're not talking about some Japanese manufacturer who starts the day with company songs, but a good old American outfit named Lincoln Electric, situated in the aging heartland of industrial America: Cleveland. Is Lincoln management proud of its uniqueness? It won't even talk about it. William Baldwin, our Southwestern Bureau Manager, had to do the article without management's cooperation. See page 50.

Take a bow

What does it take to show rising earnings during a particularly rough recession? Luck certainly helps. But so does that kind of foresight and attention to detail that goes under the heading of good management. In our cover story, Thomas O'Donnell and Steve Kichen single out 106 recession-bucking big companies and speculate on what they may have that their competitors don't. Starts on page 99.

James W. Michaels
Editor

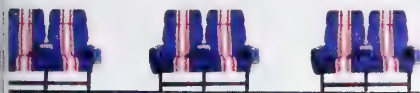
Why is TWA number one to Europe? Have a seat and find out.



The extra inches on our 747 business class seat add extra comfort on a long flight. That's one of the reasons we're number one to Europe.

Our Ambassador Classsm seat is the most comfortable business class seat you've ever had.

There are only six of them across the Ambassador Class cabin on all our 747's. With more recline, and more legroom, than ever before.



Fewer seats and wider aisles add up to more spaciousness than any other business class cabin.

But our seat is just one of a host of reasons we're the number one host across the Atlantic.

Take our Royal Ambassadorsm service. A First Class that sets the standard. With free cocktails, assorted vintage wines and brandies, and a range of entrees presented with a style

of service that's warm and personal.

And after your sumptuous meal, you can lie back in our 747 Sleeper-Seatsm. It stretches out when you do—the length of three full windows. Put your feet up for a good flight's sleep.

Consider our aircraft. Only 747's and L-1011's, the widebodies people prefer. We fly them nonstop to more cities in Europe than anyone.

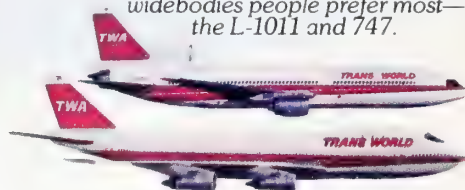
We offer conveniences on the ground too—like Airport Express[®],



For First Class travel, our 747 Sleeper-Seat reclines more than ever—a full 60 degrees.

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The only planes we fly to Europe are the widebodies people prefer most—the L-1011 and 747.



Combine all these reasons with a thirty-year tradition of service in international flight, and you've got TWA to Europe.

We're the number one choice to Europe for the seventh year in a row. We just wanted you to know why.

You're going to like us





Dr. Porsche invites you to test drive the newest Porsche.

My family, beginning with my father, has been designing and building cars for over 80 years.

At first, we worked for other companies. "But always," my father said, "there were too many compromises."

So we formed Porsche—to build *Porsches*. To our family's own standards. Without compromise. Our very first Porsche was the 356.

Now there is a new Porsche: the 944.

The 944 has a new 2.5-liter, 4-cylinder, aluminum-silicon alloy Porsche engine—designed at Weissach, and built at Zuffenhausen.

It achieves maximum torque of 137.1 ft-lbs as early as 3000 rpm, and produces 143 hp at 5500 rpm.

On the track, the 944 accelerates from 0 to 50 mph in 5.9 seconds. And it reaches the 1/4-mile mark from a standing start in only 16.2 seconds at a speed of 84 mph. Its maximum speed: 130 mph.

The 944 also has the Porsche transaxle design, Porsche aerodynamics, and Porsche handling.

To my family, the 944 is more than a new car. It is a new and true Porsche.

At Porsche, excellence is expected.



Dr. F. Porsche
Stuttgart

The new 944 Porsche.

\$18,450. New 1983, 944 suggested retail price. P.O.E. Transportation, local taxes, dealer delivery charges additional.

PORSCHE + AUDI

Yankee, stay home

U.S. companies have sweetened their pay packages for executives who work abroad, as Americans have become increasingly reluctant to go overseas. A survey of 123 large corporations by the Conference Board in New York shows that 97% of them offer bonuses to foreign-based executives and most provide cost-of-living allowances, tax equalization allowances and housing aid. These benefits can cost a company from two to three times a U.S. employee's equivalent salary. In some countries—such as Libya, Nigeria and Iraq—there are companies that pay premiums averaging 40% of domestic base salary.

Even with all these inducements, "foreign service is plainly far less attractive than it once was for Americans," says financial consultant Burton Teague, who conducted the study. Although the dollar is stronger than it was a year or so ago, it still buys less than it did 15 years earlier, Teague points out, and inflation in the U.S. means that "when the chap comes home, he finds that the house he sold for \$100,000 is now selling for \$250,000." Finally, there is rising anti-Americanism. Once Americans were admired and welcomed overseas. Now, says Teague, "you can number our friends on one hand."

Pssst, wanna be in the movies?

New boomlet: color video cameras for making home movies you can play back on your video cassette recorder. In the first 21 weeks of this year, home-TV-camera sales to retailers were 104,764, about double the 53,385 of a year before. Retailers ordered 25,822 in May alone, says the Electronic Industries Association. The percentage increase far outpaced gains in home VCR sales—600,151, against 434,098 last year.

The war of the roses

Another U.S. industry is threatened by subsidized foreign imports, and domestic producers are already lining up sympathetic congressmen. Steel? Autos? Textiles? No, this time the subject is roses. The tiny (\$90 million) U.S. rose-growing industry says it's bound for extinction without stiffer tariffs on imports from countries like Holland, Israel and Colombia, all of which subsidize their growers. The

Dutch government pays 18% of the cost of new greenhouses and provides other building and heating subsidies. Israel gives direct cash subsidies to growers. Colombia has been accused of dumping on the U.S. market. The rose growers want tariffs raised from 6% to 17% off-season and 24% in the peak season, in line with European

from 1980, but 1979 saw an 11% increase over the previous year, according to the insurance industry's All-Industry Research Advisory Council, at a cost of over \$4 billion. What's more, the thieves are now far ahead of the police, and gaining. The value of recovered stolen cars once ran about 90%, but over the last 20 years the



U.S. roses in grower's hands

"We have a just and true cause."

Common Market tariffs, and have two bills planted in Congress to do that. "We have a just and true cause," says James Krone, executive vice president of Roses, Inc., the industry trade group. Not surprisingly, U.S. florists are dead set against the measure, which they say would raise prices to the consumer. And the florists outnumber the growers: There are 222 U.S. rose growers, while the Florists' Transworld Delivery Association has 19,000 members.

Keeping up

A family of four earning \$10,000 in 1970 would need \$23,425 this year to have the same aftertax purchasing power, according to a new report by the Conference Board in New York. Inflation was the principal villain, but not the only one, reducing purchasing power by 55% during the 12-year period. Other bites out of earnings were made by Social Security taxes, which took 3.7% of the average family's income in 1970 and now take 6.7%, and federal income taxes, now 12% instead of 9.9%.

Thriving thieves

U.S. auto sales may have plummeted but auto theft has not. More than an estimated 1 million vehicles were stolen last year. That was slightly down

rate has dropped to 55%, largely because professional thieves now dismantle the cars or drive them out of the country. Cities with the highest per capita auto-theft rate: Boston, Newark, Hartford, Cleveland, Providence. (New York, despite its reputation, is 29th on the list.) Hartford (the "Insurance City") had the highest per capita rate in the nation in 1980; it may typify small cities plagued by auto theft. An effort by the city's police department and the FBI cut the rate by 24% in 1981, but it can still veer wildly—mainly because most car thieves are repeat offenders, so productive that eight adolescents nabbed early this year in Hartford, says Police Chief George Sicaras, alone accounted for a 10% increase in thefts.

Help wanted

"Plastics!" may have been the future when *The Graduate* came out in the Sixties, but in the Eighties it's more likely to be computers. The Bureau of Labor Statistics surveyed about 250 occupations and concluded that the demand for computer service technicians could more than double during the decade. Demand for systems analysts could jump 80%, for computer programmers 60%. Other good fields: aerospace engineers, dental hygienists, health services administrators, respiratory therapy workers, speech

Xerox won't stop at nothing.

These days, even nothing costs something to send. That is, if you're using ordinary facsimile equipment.

Because ordinary facsimile equipment takes the time to read every line of type, and all the "nothing" in between.

— Nothing



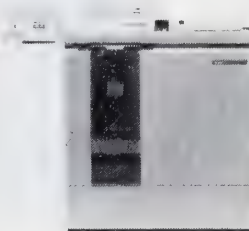
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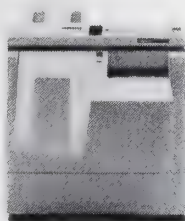
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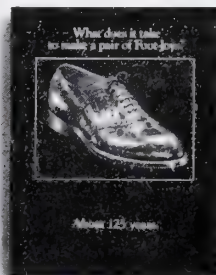
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Foot-Joy

Trends

pathologists and audiologists. On the other hand, about one college graduate in every five in fields like teaching will have to take jobs "not traditionally sought by college graduates," the report said. Except, perhaps, in Los Angeles. The Los Angeles Unified School District this year alone figures it will need 2,500 new teachers by next fall and is recruiting them throughout the country. Probable reason for the shortfall is Los Angeles' \$13,700 starting salary, combined with the high price of California housing.

Condomythology

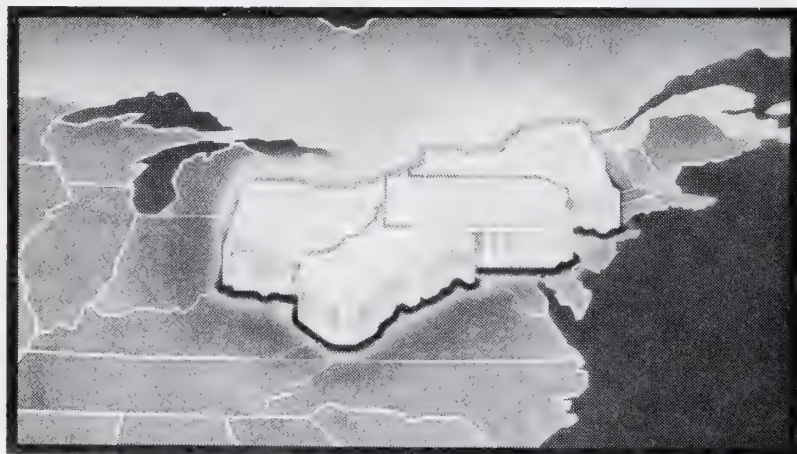
Condominiums may be big in places like Miami, Chicago and Boston (where they represent 20% to 25% of the housing market), but in most big cities they are a distant second to that old standby, the single-family home. Only one home purchaser in nine buys a condominium, according to a survey of 14 major metropolitan areas by the National Association of Realtors. In Pittsburgh, condo sales constitute only 3% of the market; in Cleveland, only 5%.

Who pays?

Most parents still think they should pay for their children's college education, according to a new report by the National Center for Education Statistics. About 50% of parents in a national survey said they thought it was their responsibility. One in ten thought the federal government should pay, however, and one in five thought the kids should handle it themselves.

Watt hath God wrought

Despite the howls of the people he scornfully calls "bureaucrats and idealists," Interior Secretary James Watt says he would still like to sell some selected parcels of federal land to private developers starting in the fall of 1983, including a square block of downtown Oklahoma City, commercially desirable tracts in the Las Vegas area and a small acreage near Palm Springs, Calif. Watt told a group of lumbermen recently there will be no "massive transfer" of federal lands to private ownership, but ultimately he still expects to sell several million of the 350 million acres managed by the Bureau of Land Management.



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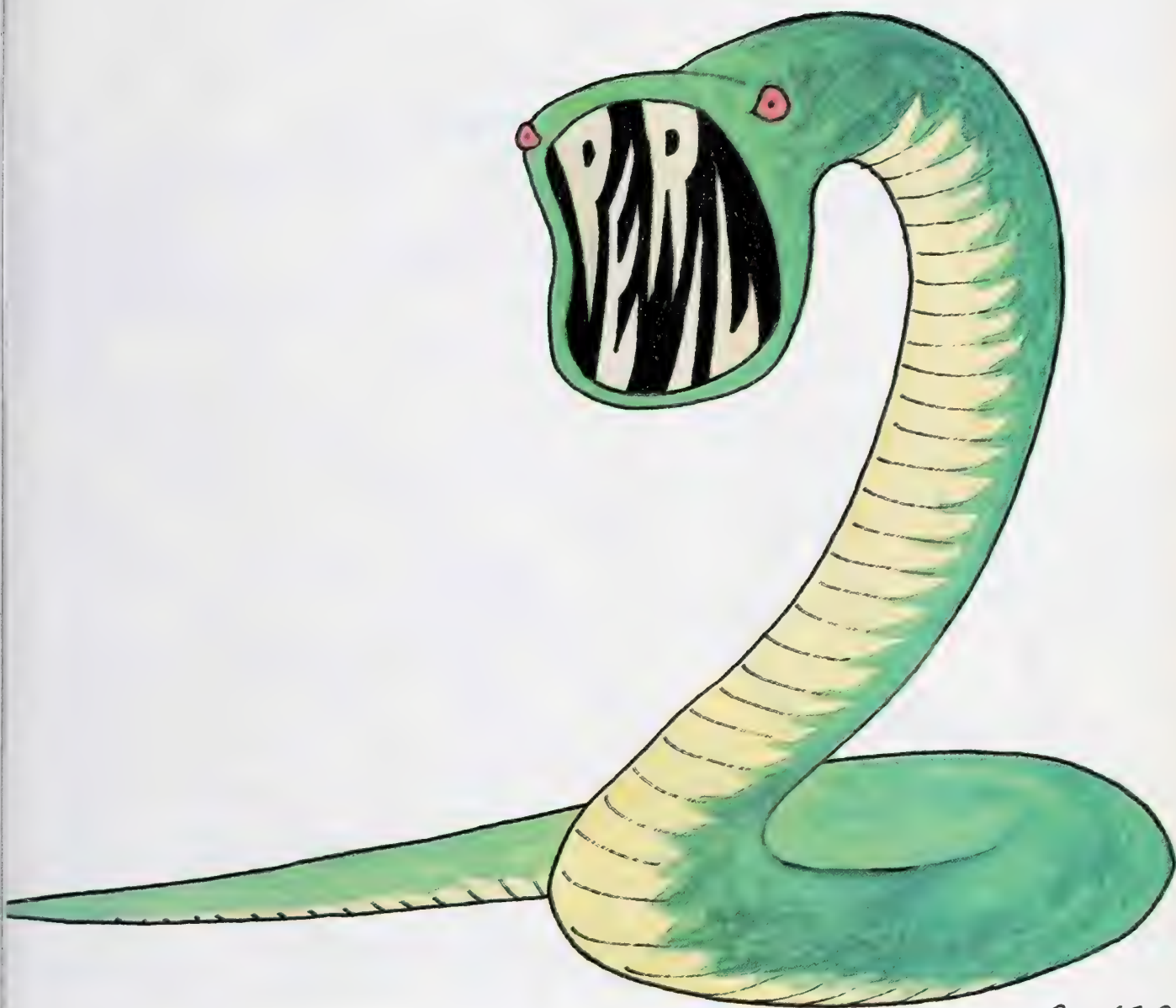
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Follow-Through

Flying higher

In the five years between 1976 and 1981, the first two versions of the European Airbus, the A300 and A310, captured 32% of the world wide-body jet airliner market. That's just in line with Airbus Industrie's plans and much better than FORBES anticipated (Nov. 27, 1978). What next for the European challenger in a market that for years was virtually a U.S. hegemony?

Having cracked wide bodies so decisively, Airbus is considering taking on the 150-passenger airliner market, which is practically Boeing's private preserve. That would be a big task. It's estimated that designing and launching a 150-seat model of the sort under consideration by Airbus would cost at least \$2 billion. But Pierre Pailleret, AI's senior vice president for marketing, says the consortium has government-backed offers for well over this sum. The West Germans would finance 20% to 25% of the new project, he says, the French and the British around 30% each. And this time other risk-sharing partners will be involved. Talks are under way with De Havilland of Canada and Fokker of the Netherlands (Fokker recently broke off discussions on a similar project with McDonnell Douglas).

Airbus Industrie's success, particularly in the last year or so, has largely been a matter of geography, says Pailleret; the Airbus has sold mostly outside the U.S. Inside, Airbus has signed up only Eastern Air Lines, although it came within an ace of selling the A310 to Trans World Airlines until Boeing came in at the eleventh hour with a massive package of low-cost financing and performance guarantees for its 767.

So far, in fact, Boeing has not suf-

fered as much as smaller U.S. competitors. Over the five years 1976-81, it took 46% of the world wide-body market, while McDonnell Douglas took 13%. Lockheed, which is dropping out of the civil airliner business entirely, captured just 9%.

But if Airbus goes ahead with a 150-seater, Boeing would be in something of a bind. It has two new planes—the 767 and 757—on the market at the same time, and the recession has hurt. Boeing does not want to launch another new project, but can't let the Europeans steal a march anywhere.

That is not to say that Airbus has no problems of its own. The consortium had planned to increase production of both Airbuses from the four a month it averaged last year to eight a month by 1985 or so. Now that may be restricted to seven a month. And while nobody doubts the Airbus on technical grounds (the British-built wing on the latest A310 version, for example, is probably the technical leader today), the question has always been how good an investment Airbus is for the European governments that fund it. AI is still far from repaying the \$2.3 billion invested by the three countries. In fact, the break-even point has been put at 900 A300s and A310s sold. Sales so far: 344 firm contracts, 159 options.

For Airbus, the big domino remains the American market. To build on the Eastern fingerhold, Airbus is looking for a new boss of U.S. marketing. Until early 1981 the marketing head was George Warde, onetime head of American Airlines, now with Continental. Warde taught the Europeans how to sell to airlines and how to support their product with a service system. Now AI wants to project an image in the U.S. as a respectable competitor rather than a



Airbus Industrie's A310 jetliner

The big domino remains the American market.

government-subsidized make-work project. The new man needs to know Washington, and also needs a background in business and finance. One name widely mentioned: Alan Boyd, lately head of Amtrak.

When will Airbus make the decision on a 150-seat airliner? The company hopes by the end of the year. For one thing, there is still no engine available for such an aircraft. Apart from Delta, no U.S. airline has the money to buy. Which may be about the only good news the recession holds for U.S. civil aircraft makers.

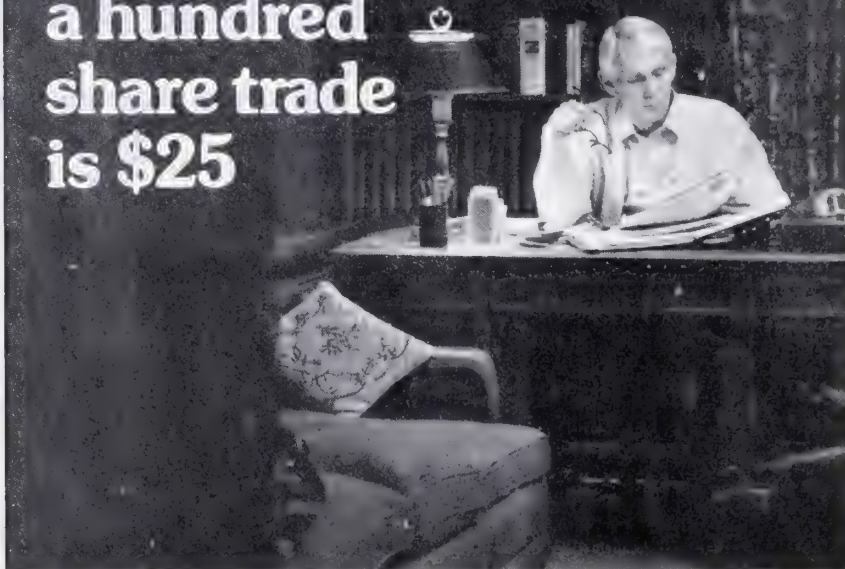
Down but not out

Not long before the nation's two largest retirement organizations terminated an exclusive relationship with Colonial Penn Group, the \$1.3 billion direct market insurance company, *FORBES* predicted (Oct. 27, 1980) that "reports of the company's death may be grossly premature." There were, of course, plenty of reasons for gloom. For seven years the 12.5 million members of the American Association of Retired Persons and the National Retired Teachers' Association had paid Colonial Penn more than \$200 million in annual health insurance premiums. How could the company replace that? Its stock was down to a 25% discount from book. But even then, Colonial Penn Chairman John MacWilliams was hopeful. He told *FORBES*: "We're really only talking about the loss of a single product line endorsement," not the whole product line—or the market.

Things did, indeed, get bleak for Colonial Penn. In 1981 the company lost \$23.4 million on a drop in revenues, excluding health and life reinsurance, to \$682 million. This year? "You will probably see another 10% reduction in revenues," says MacWilliams. But much of the loss last year was due to nonrecurring expense items associated with the loss of the NARP/NRTA business, so this year's first-quarter earnings were up 56%, to \$6.1 million.

Rather than turning away from the over-50 market, MacWilliams is expanding marketing to all 50 million persons in that age group. He also plans to sell the under-50 group a broader range of health, life and auto insurance products. Colonial Penn is also at work on a financial services and money market fund business, and plans to expand its marketing for all these areas beyond the mails, says MacWilliams, to radio, television and "other, emerging technologies."

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Readers Say

The Soviet pipeline

SIR: Mr. Minard's bottom line ("Embracing the bear," June 7) seems to be: Russia must produce guns; the West must [produce] butter—in Russia. Such a deal.

—David W. Winn
Colorado Springs, Colo

SIR: The Europeans are literally financing the rope that will hang them.

—Marc Z. Jeric
El Toro, Calif.

SIR: Seems to me we've heard that song before: Treat the Soviets nice, give them some money, and they will cooperate. Dates to Roosevelt giving Joe Stalin everything he wanted.

—David Keyser
Ordinance Codification Service
Milwaukee, Wis

SIR: Why doesn't the U.S. look into also building a large-size gas pipeline from the Siberian gas fields to extend east across Asia to the Bering Straits, cross them, and connect to the new gas pipeline being built from the Alaska North Slope down to the lower 48 states?

—Jack Perfect
New York, N.Y.

Where liberal and conservative meet

SIR: I'm delighted you picked up (*Fact and Comment*, June 7) on my article about antitank weapons and you drew exactly the right conclusion. Coming from you, rather than a softheaded, liberal do-gooder like me, that's important.

—Tom Wicker
Associate Editor,
New York Times
New York, N.Y.

Verbal pollution

SIR: I support your battle against verbal pollution (*Side Lines*, June 7). During my first job I had to decipher engineering reports my company sent to clients. My bosses frowned on my attempts to make the reports readable. I finally realized that they wanted the documents full of incomprehensible jargon and pseudotechnical gibberish . . . to protect their backsides.

—Andrew Morang
Houston, Tex.

SIR: I don't see anything wrong with saying, "Chrysler is big," but it seems to me "very big" is more better.

—Robert A. Robards
Morgantown, W. Va

SIR: [Your] 22-line paragraph might be condensed to: We are trying to improve our usage of the English language; your suggestions would be appreciated.

—Paul Van Fossen
Wilmington, Del

SIR: Mark Twain advised writers to substitute *damn* every time they were inclined to write *very*; the editor would delete and the writing would be as it should be.

—George F. Mosher Jr.
Johnstown, N.Y.

SIR: After all your protestations, you close with "Yours for cleaner and more effective English." Why double adjectives in the comparative? What's wrong with clean, effective English?

—Steven Young
Newport Beach, Calif.

Oops?—JWM

They respond

SIR: Midland-Ross (*Apr. 26*) spent \$7 million to expand its production capacity for the freight-car industry, not \$26 million as indicated in the article. The company expanded its rail-car parts capacity 27%, not 80% as stated. You termed \$5 million spent on our toxic-waste-control equipment business as "wasted." The success of our technology in destroying Army nerve gas and other hazardous wastes has been indisputably proved in both governmental and commercial use.

—Frank N. Fittipaldi
Vice President,
General Counsel and Secretary,
Midland-Ross
Cleveland, Ohio

Midland-Ross says that \$19 million was spent on "productivity improvements," and \$7 million on expansion. But the company's own 1980 annual report clearly refers to an "expansion recently completed at a total cost of nearly \$30 million." The company boasted two years ago that its waste-control business had great potential, but so far the business hasn't materialized.—Ed.

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Readers Say

To reinvent the wheel

SIR: If the government approves an MSF-suggested, Billy Mitchell-type exercise of missiles versus ships, I hope they don't allow MSF to umpire ("When That Single Argentine Missile..." *Fact and Comment*, June 7). When a plane sinks a ship, we reinvent the wheel and discover ships are sinkable. At the same time, we forget that planes are shootable-down by ships. If World War II taught us anything, it seems to me, it was that we need well-balanced military forces (air, army, navy).

—W.L. Anderson
Chapin, S.C.

SIR: Having spent 30 years associated with the Pentagon, I can assure you that they are ready, willing and able to fight World Wars I and II over again and maybe even the Civil War. Incidentally, the Civil War proved that cavalry was obsolete. Yet it took the army 40 more years to discover that fact.

—S.R. Mautner
Boothbay Harbor, Me.

In defense of the son

SIR: "His father's son" (May 24) was not representative of Edward L. Gaylord's reputation in our community. He has helped to shape some of the great institutions in Oklahoma. Within this community an overwhelming percentage of the people have great admiration for the Oklahoma Publishing Co. and personal respect for its chairman, Edward L. Gaylord.

—J. Terry Johnson
President,
Oklahoma Christian College
Oklahoma City, Okla.

True picture

SIR: The outlandish doings at the Arabian horse auctions at Scottsdale, Ariz. (*Personal Affairs*, Apr. 12) do not reflect the true picture in the Arabian horse industry. This group promotes their horses rather than the tax advantages and sells their horses at honest prices. Your reported prices of \$50,000 for a good mare are as ridiculous as the rest of the phony auction scene. Very good mares at \$15,000 are not the least bit unusual.

—M.K. Miller
Tucson, Ariz.



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German Auto Show Was A Ford.

Compare it to most '82 European models and you get a glimpse of the near future. Drag coefficient is reduced by 30%, which conceivably could result in 27% rise in fuel efficiency at higher speeds.

But aerodynamics is not merely a future concern of Ford Motor



Company. It's a science in which we are assuming a leading role right now.

Our Ford Escort and Mercury Lynx, here in America, for example, have less wind resistance than the VW Rabbit, Mercedes Benz 300D and Audi 5000.

So the Ford Probe III is not a beginning, it's another move forward.

There's A Ford In America's Future.

A Declaration of Interdependence.

America's greatness comes from many sources. Land. People. Innovation. Organization. Government. Without any one of these gifts ours would be a different life. To help students understand how much we need and depend on each other, Phillips Petroleum made possible the American Enterprise film series. It has stimulated millions of students to think about our interdependence. For only by the acknowledgment of our interdependence can we free ourselves to enjoy the fruits of independence.



Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

THAT SURPLUS WAS THE BEST THING THAT'S HAPPENED TO OPEC

except—and since—its inception.

A few months of "glut," a moderate drop in spot prices, and meaningful alternative energy developments in the U.S. have been knocked dead. From record highs, intensive U.S. well drilling offshore and everywhere has plummeted at a rate at which drillers would love to see their shafts sink.

We *had* within our sights energy independence.

Sure, the costs are high. But those costs are *literally* negligible compared with what it's costing us now in

military preparations to defend the Middle East oil that presently constitutes a jugular vein for us. The same dependence makes us a veritable hostage in the ongoing Israeli-Arab confrontation. And, of course, the cost of our being involved in actual military action in the Middle East is beyond calculation.

Instead of being in a near-panic about the threat of a surplus to their pricing unity, OPEC knows now that all they need to do to drown our efforts at energy independence is to open their taps wide once in a while.

IT REMINDS ME OF STALIN BACKING HITLER

The Kremlin's vociferous support for Argentina's seizure of the Falklands reminds one again of the utter hypocrisy that prevails among dictators, who, unlike democrats, have no elections in which they can be held to account.

To have Russia and her puppets, Cuba and Nicaragua, beat the drums on behalf of one of South America's bloodiest military dictatorships is a bloody joke to everyone who hasn't—yet—shed his. Even Mexico's leftist author and former ambassador to France, Carlos Fuentes, spoke openly in an interview with Boston television station WGBH:

"You have in Argentina one of the most repulsive regimes that has ever existed in the New World, in Latin America. The junta is responsible for the disappearance, the torture, the death of tens of thousands of its own citizens. So it is very difficult to back this junta, which has now taken Argentina on an adventurous course in

order to distract attention from its pitiful failings, not only on human rights—we all know this—but also its economy. . . .

"It is a bit grotesque to see General Galtieri crying because of the men who died in the sinking of the *Belgrano* and not shedding tears for the thousands of young men who have died in his prisons. There is something indecent about this, I would say. . . . The Argentine people don't have sovereignty over their own country, let alone the Malvinas. . . ."

With attention on the Falklands, of course, who recalls the Kremlin's ongoing rape of Afghanistan? Perish the thought that this thought might enter the minds of the Kremlinites as they whoop it up against "colonialism."

As for Jeane Kirkpatrick and her ongoing encouragement to the present Argentine junta—maybe someone will persuade her to follow her government's policy.

"POLISH GOVERNMENT STEPS UP ANTI-U.S. PROPAGANDA"

Isn't it nice to have something to laugh about when most newspaper headlines these days are so woe full?

Without Russian guns in the government's hands and

pressed against the backs of the Polish people, that bunch would be lucky if they weren't swinging from Poland's unlit lampposts.

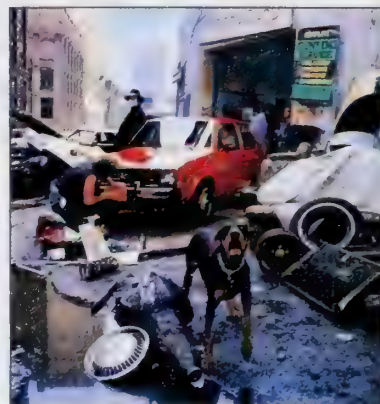
WHICH PICTURE MAKES ITS POINT?

'Tis a lovely scene, but aren't you sorry for the poor devil who apparently left his Honda there before the snow began and now can't get it out? From the look of it he'll have to wait till the spring thaw to move it. Trying to figure out the point, I read the small type: "This photograph made possible by the excellent traction of Honda's front-wheel drive." Are they implying what the picture doesn't show—that some damn fool deliberately drove it there through the snow, not even making tracks?



On the other hand, this Volkswagen advertisement in a German magazine is captioned, "The most often stolen American car." The picture states what the copy states:

"One may think whatever one wishes about American car thieves. But one cannot ignore that they have a certain knowledge of energy factors. Whenever a car was



Das meistgestohlene Auto Amerikas.

stolen in the U.S.A. during 1979, it was most often a Golf [Rabbit]. Sad but true.

"True but not sad is the fact that the Golf offers a very appreciable use value. True also that it becomes ever more popular, and therefore certain gentlemen experience thievish pleasure.

"Another reason is doubtless the fact that the 44 KW (60 PS) Golf accelerates from 0 to 100 in 13.5 seconds."

FIVE OF EUROPE'S BEST

Aside from computer computed test scores and such, "best" is at best a subject of subjective judgment. But it's surprisingly easy to name the few best among hotels if you have nigh on to 40 years of intensive, extensive travels, encompassing most of the globe's more familiar cities. There's *Claridge's* in London, *Vier Jahreszeiten* in Hamburg, Copenhagen's *Plaza*, whose Library Bar is the Old World's warmly grandest, *Le Crillon* in Paris and Zurich's *Baur au Lac*.

Fortunately, in most major foreign metropolises there are from one to half a dozen top-notch hostelrys, varying from dusty old splendiferousness to shiny-new marbled, mirrored and chromed magnificence to the luxuriously cozy.

As for restaurants, luckily many notable cities have a few of the superb. Indeed a handful are victually almost

worth the trip for themselves. Claridge's *Causerie* and the *Connaught Grill* in London; Hamburg's *Vier Jahreszeiten Grill*; Copenhagen's *Baron of Beef*; Hotel de l'Europe's *Excelsior Room* and the Amstel's *La Rive* in Amsterdam; Vienna's *The Three Hussars*; and Paris' *Grand Véfour*, *Tailleurvent* and *Lasserre*. (Famed *Tour d'Argent* is a tourist-oriented infamy, as low on the superhigh-priced totem pole as *Maxim's*.)

* * *

Abroad, tipping never used to be a problem, with *l'addition* invariably stating "service included," which ranged from 12% to 18%. One could add more if pleased. But, "times they are a-changin'." The last time I was in Germany, the reference to "service included" wasn't on the bill. I asked the waiter if it was included. The answer? "Yes, but the tip isn't."

FREE FORBES SUBSCRIPTION FOR THE REST OF HIS LIFE

Five years ago here I quoted from a letter from a 95-year-old subscriber, William Cooper, written when he had extended his *FORBES* subscription. He explained why he limited his extension with this story:

"On the London to Edinburgh train which stopped at most local stations, a Scots octogenarian popped out again and again, returning each time to the same seat. 'Pardon me,' said his compartment mate, 'but are you in trouble? Can I help you?'

"'Weel,' replied the Scot, 'my heart man says I may die

at any moment. 'Twould be a pity to be left with an unused ticket. So I buy one to the next stop.'"

On Mr. Cooper's 100th birthday, his son reminded us of the editorial and the suggestion that from now on his father's *FORBES* subscription "should be on the house."

Scots though we are, we're delighted to comply.

In return came a delightful letter from *FORBES'* centenarian subscriber in which he concluded with this ancient Scottish fond farewell: "May the mouse ne'er leave your flour barrel with a tear in his e'e."

SINCE LIBBERS HAVEN'T SOUGHT TO DEFROCK MOTHERHOOD

maybe chauvers should promote "fatherhood." Motherhood and flag are used as the epitome of the untouchable, so why not a little hood-ing for Father?

WHAT MAKES ONE THING GOOD AND ANOTHER GREAT

in creative works is just a touch—indefinable, elusive but indisputably there.

Whether it's on paper or canvas or stage, what a work of art is or is made of or what it is labeled doesn't necessarily make it so. True, to paraphrase Gertrude Stein's bit about a rose, a book is a book; a painting a painting; a ballet a ballet; a play a play and a sculpture a sculpture. But the difference between just another one of any of these and a great one is the touch.

A simple, lovely example is this excerpt from Shel Silverstein's runaway bestselling volume, *A Light in the Attic*. It has that indefinable something that makes his kids' verses a total delight for adults too.

Abigail began to cry and said,
"If I don't get that pony I'll die."
And her parents said, "You
won't die.
No child ever died yet from not
getting a pony."
And Abigail felt so bad
That when they got home
she went to bed
And she couldn't eat,
And she couldn't sleep,
And her heart was broken,
And she DID die—
All because of a pony
That her parents wouldn't buy.
(This is a good story
To read to your folks
When they won't buy
You something you want.)



AMONG THE SILLIER ADAGES

is that admonishment to "act your age."
The one has nothing to do with the other.

MAYBE IT'S TRUE

that you can't go home again,
but that's no reason not to try.

WILL DEMOCRATS OUTFLANK THE GOP ON TAXES?

By M.S. Forbes Jr.

The promise to pare significantly personal income tax rates was one of the Republicans' most potent selling points in the 1980 elections. And despite what one might hear from Washington, higher taxes are still anathema to most voters. (With good reason: Increasing levies during a recession is a guarantee for more economic trouble—and bigger budget deficits.) But if the Republicans aren't careful, the Democrats could steal the tax issue if they follow the lead of Senator Bill Bradley (D-N.J.) and Representative Richard Gephardt (D-Mo.).

With much fanfare, the two have introduced a bill that would simplify the personal income tax code by doing away with most deductions, reducing the number of tax brackets and slashing the top rate from 50% to 28%. The bill is a complicated variant of the so-called flat-rate income tax idea, where everyone would pay a rate of, say, 15% on all income and there would be no deductions. Although it lacks the simplicity of a flat tax, the Bradley-

Gephardt bill, if properly promoted, could do for the Democrats what the Kemp-Roth bill did for Reagan and the Republican Party in 1980.

The bill's political appeal is that it would not alter interest deductions for homeowners and deductions for charitable contributions, and it would not raise tax payments for lower-income earners.

The time is certainly ripe for a Democratic attempt to outflank the Republicans on taxes. The individual reductions passed last year will not be felt by most people until this month and won't be fully effective until the end of next year. This stretch-out means the Democrats can say with a straight face that the Republican approach hasn't worked and that they have a better one.

The White House could easily come up with its own flat-tax proposal. But don't count on it. The Administration this year has dropped the ball repeatedly on economic issues.

They allowed congressional Republicans to persuade them to endorse major tax increases, thereby diluting Reagan's image as a man

who wants to let people keep a little more of what they earn. They allowed Democrats to get away with portraying the Kemp-Roth feature of last year's tax bill as a giveaway to the rich (ironic when you consider that Kemp-Roth was cribbed from John Kennedy's individual tax cuts of the early 1960s). They have done nothing about the crisis in monetary policy, which is keeping interest rates at lethal levels.

A flat-rate tax would not only be a potent political issue, but also a powerful stimulus for the economy. It would enormously increase the incentive to earn and would halt the corrosive growth of the underground economy. It would redirect tens of billions of dollars' worth of brain power and investments from the sterile activity of avoiding taxes into areas that would be productive.

Combine a flat-rate tax with a fundamental reform of monetary policy (see this column, May 24 and June 7) and President Reagan and the Republicans would rapidly turn the economy around—and, not so incidentally, retrieve their sagging political fortunes as well.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

Lukewarm Latins

Latin America has many voices and many viewpoints. In spot-checking the April and May editions of various leading Latin American dailies, I found what I also encountered personally in Hermosillo, Mexico. Many Latin Americans—right, left and center—are not especially fond of the military government in Buenos Aires, are not overwhelmingly agitated about the Falklands and are not necessarily ready to judge the U.S. simply in terms of our stance on the crisis. One finds them much more concerned about trade relations, U.S. foreign aid, curtailing inflation in their own countries and getting more loans from U.S. banks.

—Marvin Alisky,
Wall Street Journal

Dewey Jr.'s Shirt Tale

There are a lot of companies losing their shirts, and as the economy keeps going sideways, you'll see more companies running out of shirt.

—Thomas E. Dewey Jr.
management consultant,
in the *Wall Street Journal*

From Glut to Gap?

Are we about to see the end of the oil glut and rising oil prices, which may bring back some inflation to our country?

Yes, I think it could happen, and my greatest fear is the possibility of Iran moving into the Gulf militarily to

destroy the oil fields in Kuwait, Abu Dhabi, the United Arab Emirates and Saudi Arabia because those countries sided with Iraq against Iran. We could wake up one morning and find that those critical facilities have been destroyed. I think that is the greatest immediate threat. We need to build our strategic petroleum reserves.

—Senator Henry Jackson (D-Wash.)
on "Face the Nation"

It's nice to be important, but it's more important to be nice.

—Joe Franklin,
talk show host, interviewed on CBS

"Known" Oil Unknown

"Known reserves" are defined as the total amount of oil in areas that have been well prospected. Geologists are quite sure of their existence. . . .

It costs money to produce information about what are called known reserves, and therefore people will create only as many known reserves as it is profitable to create at a given moment. The quantity of known reserves tells us more about the expected profitability of oil wells than it does about the amount of oil in the ground. And the higher the cost of exploration the lower will be the known reserves that it pays to create.

Known reserves are much like the food we put into our cupboards at

home. We stock enough groceries for a few weeks or days—not so much that we will be carrying a heavy unnecessary inventory that ties up an unnecessary amount of money in groceries, and not so little that we may run out if an unexpected event should descend upon us. The amount of food in our cupboards tells nothing about the scarcity of food, because it does not reveal how much food is available in the stores. Similarly, the oil in the "cupboard"—the quantity of known reserves—tells us nothing about the quantities of oil that can be obtained in the long run at various extraction costs. This explains why the quantity of known reserves, as if by a miracle of coincidence, stays just a step ahead of demand.

—*The Ultimate Resource*,
Julian L. Simon

Guide for 3,000 Autoists

The *Guide Michelin* appeared as an aid to motorists in 1900, when there were 3,000 automobiles in France. The idea behind it, then as now, was to sell tires, which Michelin had been doing in its factory at Clermont-Ferrand since 1888. Along with maps the first guide included instructions on changing a tire and addresses of places selling gasoline—mostly grocery stores. Not until 1926 was there any mention of food.

—Frank J. Prial, *New York Times*

Joker Haig

"You may have read in the papers about my differences with Cap [Weinberger]. I must say they are absolutely wrong. In fact, we get along so well that when Cap and I are in Washington we have breakfast every week, alone—except for our tasters."

On the extent of his shuttle jet lag: "When I got off the plane, I shook hands with my wife and kissed Cap Weinberger."

—Secretary of State Alexander Haig

That's Confidence?

In many former societies, the old were killed when they were on the point of becoming inconvenient. Among the Ojibwa Indians, an old man sang a death song and danced, if he could. While he was still singing and dancing, his son came from behind and brained him with a tomahawk.

Few fathers and sons still enjoy that kind of confidence.

—Anatole Broyard,
Books of The Times

Punch

ROTHCO

2000



"What did I tell you? See one planet and you've seen them all."

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Our exclusive animated VIP (Visual Image Projection) system feature shows you at a glance what's happening inside the machine. And only the BD-4511 has VIP.

And of the other four competitors listed in the grid, the BD-4511's reduction feature can be matched by only



one. But it can't match the BD-4511's low price.

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EVERYTHING'S GETTING SMALLER BUT PERFORMANCE



Can an invention like the wheel pay off for investors?

The daisy wheel (the device you see here) is changing the look of computer printout.

It prints computer-generated data at high speed in clean, typewriter-like characters.

Which is why it's now being incorporated in most character printers made in this country.

The daisy wheel owes much to the

genius of a small group of West Coast inventors and entrepreneurs.

And anyone who follows high-technology stocks will want to keep an eye on the company they're with.

The company is ITT. International Telephone and Telegraph Corporation.

At ITT, we're investing in the future. What are you investing in?



HOW BAD IS UNEMPLOYMENT?

DISPASSIONATE, BALANCED ANALYSES of the unemployment figures are scarce these days and, as the November elections near, are likely to become scarcer still. Politicians, businessmen and even economists hate to risk appearing unfeeling, indifferent to suffering, even if they are only trying to get to the heart of the matter. But analysis is better than rhetoric as a guide to policymaking, and the risk has to be taken.

The economic impact of the jobless has been overstated

THE TRUTH OF THE MATTER IS THAT WHILE UNEMPLOYMENT is higher than at any time since 1941, its impact on the U.S. economy thus far has been overstated. One reason is the difficulty of measuring even so seemingly straightforward an item as the number of jobless (*see p. 56*). Beyond that, politically unwise though it is to say so, more than 50% of those looking for jobs at the moment are women and teenagers, few of whom support families. In over half the homes in which married men are looking for work, someone else is drawing a paycheck.

Unquantifiable, too, but clearly a mitigating factor, is the number of households getting unreported cash for labor in the underground economy. And, on average, a family's income drops about 20% when a factory worker loses his job. That's a big blow to the household, obviously. But for all of the reasons mentioned, it has been easy to overstate the cumulative effect of such blows.

The flip side—the number employed

IF NEARLY 10 MILLION AMERICANS WERE OUT OF WORK in May, the flip side of that figure is that more than 100 million were working. The number of people employed in May jumped by 780,000. That good news was scarcely noted because more than 1 million people entered the labor force in April.

The employed are in relatively strong shape. Personal income in April rose by only 0.3%, as reported by the Department of Commerce, but that's only a part of the story. Thanks largely to declining inflation, real disposable income has risen by 2.5% so far this year. Another 3% rise seems likely in the second half.

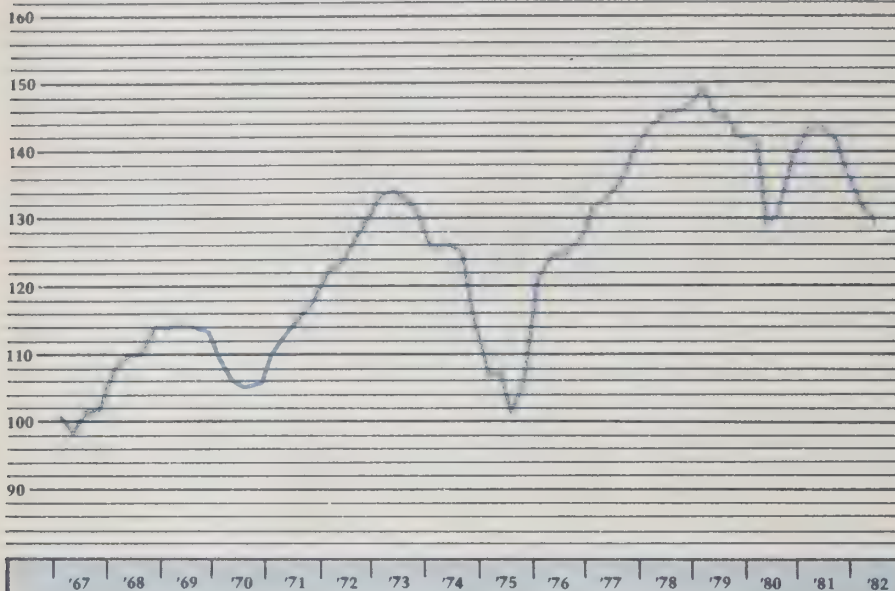
The makings of recovery

THAT HAS MADE CONSUMERS INCREASINGLY OPTIMISTIC in spite of the economy's well-advertised problems. The Conference Board's latest monthly survey of U.S. households found that less than half of those queried believed conditions were "bad," compared with 54% who felt that way a month earlier. Nearly one in four predicted their incomes would go up even more by year-end. Add to that the federal tax cut and increase in Social Security benefits taking effect on July 1 and you have the makings of a modest consumer-led recovery beginning after mid-summer.

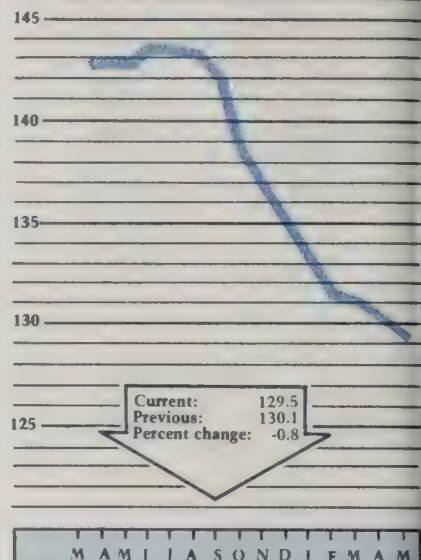
It is a sign of the economy's underlying vigor that it has functioned as well as it has under crushing interest rates—and will even be able to manage a modest recovery. But until interest rates come down—and decisively so—the chances of a sustained pickup are nil.

The Forbes Index

Forbes Index



12-month close-up



Another sinking spell. The Forbes Index is down slightly, after having held steady for several weeks. The main depressant was manufacturers' new orders, which fell 3.9%. That aside, however, the figures were mixed or even upbeat. Inventories, for example, did not budge at all, while unemployment claims declined by 2.4%.

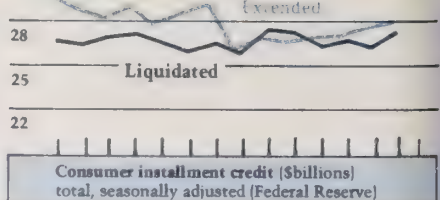
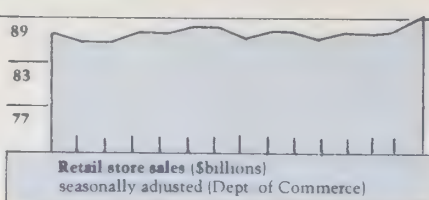
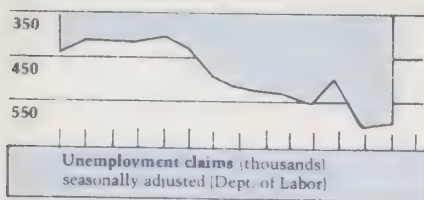
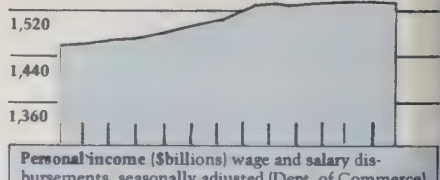
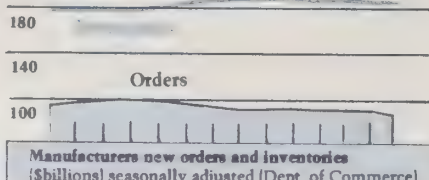
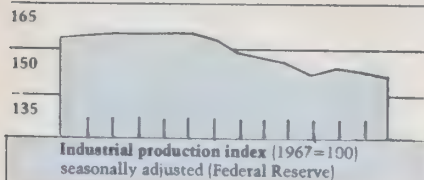
Lower inflation and increased consumer confidence about the future course of the economy helped push up retail

store sales by 1.5%, the third straight monthly gain. Consumers are borrowing more to make purchases, as shown by a substantial 4.4% rise in installment credit. That figure has risen for four consecutive months, even though many households are paying off outstanding debt. It all means that many elements necessary for a midsummer recovery are falling into place. Until interest rates come down, a sustainable recovery will not get off the ground.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.





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how they work for you.**

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What a takeover battle: Cities Service pursues Mesa Petroleum, but may not want to buy it; Mesa tenders for Cities but may want to sell out. In all this confusion, the smart money is betting that a sure winner is T. Boone Pickens Jr.

A nicely coppered bet

**By Priscilla S. Meyer
and Toni Mack**

WHATEVER THE OUTCOME OF the confusing takeover battle of the last few weeks between Cities Service Co. and Mesa Petroleum Co., a sure winner is Mesa Chairman T. Boone Pickens Jr.,

a renowned oil business horse trader. Pickens has set up a situation where he can scarcely lose. In a sense he had to make a move—or lose momentum.

Smallish, \$408 million (revenues) Mesa is the darling of oil analysts and institutional money men because of Pickens' innovative moves to increase the company's oil and gas reserves. But behind the figures and the image, Mesa now is peaking. Earnings growth is slowing and the annual net additions to reserves could shortly become minuscule or disappear altogether, putting Pickens' company in the same position of involuntary liquidation that he criticizes other oil companies for tolerating.

To escape from such a gray prospect, Pickens waged a long and highly visible takeover battle for much larger, \$8.5 billion (revenues) Cities Service. His aim: to goad Cities into buying Mesa or, alternatively, to succeed in acquiring Cities, thereby trading Mesa up into a company with fresh opportunities and enormous reserves of natural gas and oil.

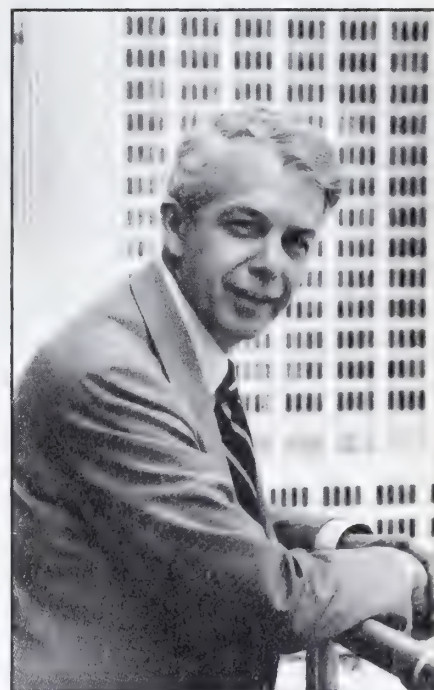
Right now—with lawsuits and acrimony flying and third parties in the wings—it looks as though the two companies might attempt the impossible feat of gobbling up each other. But what looks like stalemate is actually a winning end game from Pickens' viewpoint. The 54-year-old geologist-dealmaker has put himself in

a position where there is hardly a way he can lose. Either Pickens emerges with more than \$100 million (he personally owns 7 million effective shares) or he takes command on a much larger playing field.

Why did Pickens feel obliged to move? Because he had taken Mesa



Mesa Chairman T. Boone Pickens Jr.
Whether he buys or sells, he wins.



Cities Chairman Charles Waidelich
Might be forced to buy.

about as far as it could go.

Finding costs are a measure of a company's exploration success, and Mesa's costs for this have risen. In 1981 it cost Mesa \$15.06 a barrel to find its U.S. oil, according to *Petroleum Outlook*. That compares with \$13.80 a barrel in 1980 and \$5.43 a barrel in 1979.

Mesa's earnings are growing, but Mesa—because of a 1979 FASB ruling—has been capitalizing an increasing percentage of its interest costs. Oil companies capitalize interest on developing projects because they often spread out over many years. Where Mesa capitalized \$6.2 million, or 11% of its interest costs, in 1979, it capitalized \$70 million, or 70%, in 1981. If that interest had been expensed, it would have taken \$38 million from earnings (at last year's tax rate), bringing earnings per share down to 99 cents, rather than the \$1.54 a share that Mesa actually reported, up 11.5% from \$1.38 a share in 1980.

As for oil reserves, there, too, statistics may mask a problem. Mesa doesn't book reserves until just before they're brought into production. That means the reserves and production increases shown in recent years result partly from discoveries offshore in the mid to late 1970s. Recently, Mesa has drilled about 200 quickie gas wells in New Mexico—about 500 million cubic feet of gas apiece. But those are the kinds of small discoveries that help oil companies short term and decidedly not the substantial finds that pay many times over for the dry holes.

So Pickens had good reasons for spending the last two years in hot pursuit of potential partners and financing to attempt to buy Cities Service, with its huge untapped oil and gas reserves. "Every time I went to a cocktail party someone would come up to me talking about being contacted by Boone Pickens," sniffs Chairman Charles Waidelich of Cities. "Here was this little company without financing, popping around, on the verge again and again of making a tender offer for our shares. I couldn't sit back and let him take us on the cheap."

Cities hired New York takeover specialists and discussed tactics for dealing with the Texas upstart. Cities and its lawyers began contacting all the potential partners and lenders with suggestions that they might appear "attractive" takeover targets themselves. More than a few, according to court records, backed off, afraid of being gobbled up by Cities.

On June 1, Cities counterattacked, making a preemptive tender offer for

Mesa. Was Pickens worried? Avowedly, yes, issuing denunciations of the Cities offer from his command post in New York's Waldorf Towers. But readers of Joel Chandler Harris' Uncle Remus stories will remember how the shrewd Br'er Rabbit begged Br'er Fox not to throw him into the briar patch (which is the natural habitat of rabbits), eventually goading him to do just that.

But, you ask, if Pickens wanted to sell his company, why didn't he straightforwardly offer it for sale? Because smallish oil exploration companies are not bringing good prices. Last year Southland Royalty tried to auction itself off and was saddened at the meager offers. On the other hand, Conoco sold at an average \$87 a share, up from a \$65-a-share market price, as the result of a bidding war.

"We are saying, 'Enough is enough,' " says U.S. Steel's David Roderick. Such hard words help explain the growing risk of a U.S.-EEC trade war.

"We have taken too much"

By Howard Banks

TRUE TRAGEDY ARISES, a literary critic once said, when both parties to a quarrel are right. By that test, the present quarrel over steel imports into the U.S. is tragedy on a global stage, affecting the managers and workers in steel companies around the world and threatening a much wider trade battle between the U.S. and key defense partners within the European Economic Community.

Consider David M. Roderick, chairman of the United States Steel Corp., who has played the leading role in the battle American steelmen have fought to limit imports. Last month, Roderick got what he wanted from the Department of Commerce—a clear ruling that some European governments, as well as those of Brazil and South Africa, had been unfairly subsidizing steel exports to the U.S.

The upshot now that Cities has been tendered a bundle of Mesa shares and Mesa likewise has tenders of a bunch of Cities shares? Cities has no bargain—even at its original \$17-a-share offer for Mesa, it was committing to pay, by *FORBES'* estimate, \$6.17 per barrel of the smaller company's reserves. And in today's stock market, oil in the ground can be bought more cheaply than that. (Mesa, on the other hand, is committed to paying \$4.21 per barrel for Cities' oil and equivalent reserves.)

So, whether he ends up a buyer or bought, Pickens has himself a fine little deal. "When we get to the point where we don't make deals, it'd be one of two reasons: One, I'm senile, or two, they'll take me off in a box," Pickens once told *FORBES*. There's not a box in sight. ■

The Commerce Department in a preliminary ruling reckoned that the worst offender was the nationalized British Steel Corp., whose subsidy in 1981 amounted to 40% of the average price it charged in the U.S. Behind them were the French (20% to 30% subsidies), the Belgians (21% to 22%) and the Italians (18%).

As will happen in a tragedy, Roderick got no joy from his victory. "I don't think that anybody should sit back and say he's pleased that there had to be government enforcement in order to generate a solution to what was a trade abuse," he told *FORBES*.

For its part, the European Economic Community feels betrayed. The EEC, without agreeing with Commerce's numbers, thought it had a deal with the U.S. Under the Davignon plan, put together by the EEC's vice president, Etienne Davignon, the EEC has been forcing its steelmakers to shut

down excess and inefficient facilities to bring capacity in line with demand. As a result, and at considerable political cost, some 218,000 jobs have vanished. Even now, the EEC is reportedly working on another round of cuts to reduce capacity by another 40%. The EEC thought that in return for such drastic demonstrations of good faith, the U.S. had agreed, back in 1977, to tolerate subsidies for several more years to cushion the impact of these moves, provided all subsidies were ended by 1985.

In the past, each time steel imports reached a level where they seriously hurt the American industry, there had been moves to file similar cases. Each time the Administration, anxious to head off an embarrassing row with the Europeans, had persuaded the U.S. industry to compromise. Each time, a surge in imports followed and the deal failed.

This time, too, there had been talks. They ultimately failed over whether or not steel tubes should be included in an overall tonnage ceiling. (Demand for oil drilling tube exceeds present U.S. capacity.) U.S. steelmakers wanted them in. The Europeans did not. Now that a formal subsidy complaint has been certified by the Commerce Department, U.S. steel companies have access to the court system and the lines on each side of the quarrel seem

likely to harden. That's what makes the present impasse more dangerous than earlier quarrels.

Roderick will not even hint at what he might accept as a compromise this time. "It's not my job to negotiate what's acceptable," he says. But he insists that no deal can be acceptable if it is piecemeal in nature. "It would have to deal with all steel products," he says, to prevent some sliding round the edge of the controls.

There seems no doubt of Roderick's determination to hold out for nothing less than an airtight deal. "In the long term, trade will do best if those abuses are eliminated," he says. "Otherwise we will be heading for a trade dilemma that I do not want to see." Any new surge in imports will see more suits, including antidumping suits. Hopes for an agreement are further dimmed by growing steelmaking capacity elsewhere. The EEC takes the view that steel is a low added-value industry that should be allowed to migrate to lower-cost economies, the so-called newly industrialized countries ("NICs"), in the Third World. Their share of U.S. consumption is still tiny (*see chart*), but has doubled, and their share of world production has increased from 3.2% in 1974 to 5.8% last year.

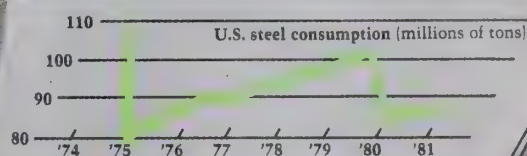
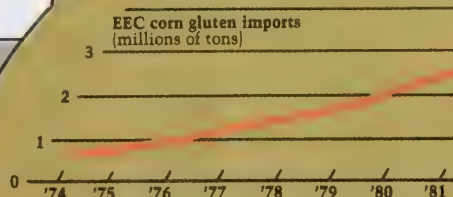
This migration hurts the established steelmakers three ways: The

NICs export their surplus capacity; they stop importing steel from the established makers; and they set up industries that use steel. Korea's progress in shipbuilding is an obvious example of the last.

But Roderick believes that trend is "slowing down." Third World steel grew on the back of subsidized export credits from Western governments anxious to sell the NICs steelmaking plant, he says, and he thinks those days are gone: "International bankers now have a better perception that where there is a small home market, these will be uneconomic loans."

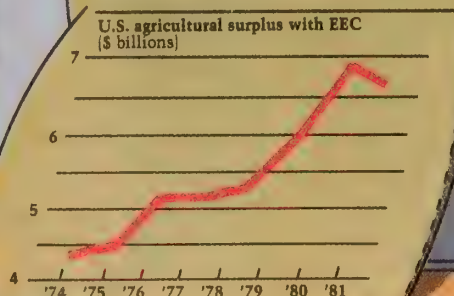
EEC retaliation, if it comes, will be against exporters of machinery, computers and the like and, most likely, American farmers. There has been a surge of U.S. exports to Europe of animal feed called corn gluten, which is cheaper than grain. The EEC wants to limit further increases and believes (rightly) that President Reagan is vulnerable to pressure from the farmers. There are also EEC threats to attack the U.S. system of deferring taxes on profits made from exports as a subsidy of a different color.

Roderick is, of course, aware of the risks of escalation, but he is unmoved. "If that hits at others [Americans] who have been passing out trade abuse, then so be it," says Roderick. "We are saying, 'Enough is enough.' We have taken too much of the problem, been the sacrificial lamb, at the expense of our shareholders." ■



Potential hostage...

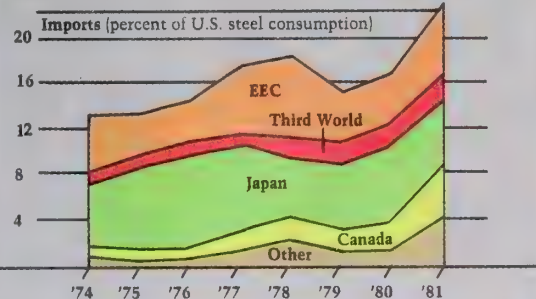
U.S. exports of corn gluten to the EEC have tripled since 1974, and are an obvious target for retaliation in a trade war.



Source: Department of Agriculture

... actual victim.

With U.S. consumption down, imports are a growing burden. The EEC's share has stayed even, but others are crowding in.



Source: American Iron and Steel Institute



Here's a financier who once tried to buy the Falkland Islands—and who illustrates much of what is wrong, and right, with the lucky/unlucky land of Argentina.

A talk with Paco Capozzolo

By Norman Gall

IF H. FRANCISCO CAPOZZOLO had had his way, there might have been no war fought over the Falkland Islands. He might have deprived the Buenos Aires junta of its excuse for launching aggression as a diversion from economic problems—and spared England the lives and treasure expended to save the islanders' freedom. Paco Capozzolo is a handsome, smooth-talking Argentine, a former small-town trader who, in the postwar decades, talked British and other absentee European landowners into selling him their estates at very low prices. In 1977 Capozzolo almost succeeded, with the help of British and French partners, in buying the Falkland Islands Co., which owns much of the land, for only \$7 million—less than the price of an old fighter plane or a few missiles. The British Foreign Office vetoed the deal, but it was close.

A great peacemaker? Not quite. According to associates, Capozzolo had planned to resell the Falkland Islands Co. to Argentine government corporations at a large profit after ten years, under the terms of a secret agreement. By then, Argentines would have been permitted to migrate to the islands to occupy staff jobs with the Falkland Islands Co. Change would have come slowly. There would have been no confrontation.

The negotiations for the Falkland Islands Co. came

in 1979, near the peak of Capozzolo's rise from provincial obscurity to great wealth. Around the same time, he and Argentine-born businessman Jorge Carnicero, chairman and founder of Dynallectron Corp. of McLean, Va., were the leading shareholders of Riggs National, the biggest bank in Washington.

But recently things haven't gone well for Capozzolo. Most of the 50-odd companies, ranches and banks in Capozzolo's Arbol Solo (Lonely Tree) group got into deep trouble as a result of the government's freeing of interest rates. In the weeks following the Argentine seizure of the Falklands on Apr.



Argentine financier Paco Capozzolo
The government said, "Enough."

2, Capozzolo called in his creditors, to whom he owed \$170 million, or roughly 15 times the annual profits of his business empire. He told them he couldn't pay. Among Capozzolo's leading bank creditors are Citibank (\$14 million), which advised him on his mergers and acquisitions in the 1970s.

But the negative interest rates that nourished financiers like Capozzolo were bleeding the Argentine economy. Finally, the government said, "Enough."

Says a former associate, "Paco made huge amounts of money in the mid-1970s riding what we call here the bicycle, taking out low-interest government loans to buy inflation-indexed government bonds, with his cost of funds about half the income from his bonds. He got into trouble because of his greed. He did not know when to quit."

Not knowing when to quit. It seems that overconfidence is an Argentine vice. The inept junta thought the British would let them have a cheap and easy victory. Capozzolo was equally confident that he could go on endlessly beating the inflation game. Perhaps the war will finally force this lucky/unlucky nation to face the realities.

FORBES' Norman Gall interviewed Capozzolo in Buenos Aires.

Tell us about your deal to buy the Falkland Islands Co.

Capozzolo: We had a deal to buy the Falkland Islands Co. in 1977 for only \$7 million. The company owns nearly half the land and the sheep on the islands and totally controls its economy. My holding company, Arbol Solo, formed an Anglo-French-Argentine group with Simon Fraser, one of Britain's biggest landowners, and Jimmy Goldsmith and Madame Gilbert Beaux of the Banque Occidentale of Paris. We were planning to develop tourism and to build a refrigerated packing plant to export mutton.

It is a pity that the British Foreign Office vetoed the deal. The British government didn't want any Argentines to live in the Falklands. But the British should have been aware that, sooner or later, coexistence was in everyone's interest, and that there was no other way for the Falklands to develop and live in peace.

The deal fell through after you told a Buenos Aires newspaper reporter about it

Capozzolo: *La Opinion* published the news prematurely, causing a fuss in London and forcing the Foreign Office to forbid the sale, even though the owners wanted it to go through. The price was less than that of an old fighter plane, or five Exocet missiles on the clandestine arms market. So many men wouldn't have died. The islands' economy would have revived and antagonism between Argentina and England would have been avoided.

Let's talk economics. Why does Argentina, a potentially rich country, have one of the worst inflation rates and one of the worst growth rates?

Capozzolo: Argentina is a new country. Our grandparents came here with suitcases on their shoulders to form a new country. My grandfather was an Italian, from Naples, who came to Argentina in 1874 when he was 13. He drove an oxcart, hauling timber to the river port of Roman. After ten years of work the boss gave him a cart and a team of oxen. But our grandparents' big defect, and our main problem, is they sacrificed so much at the beginning so their children could live better. They wanted them to be professionals, men of the city, so they emptied the interior of the country. Everyone came to Buenos Aires. That explains our economic problems.

We Argentines have had very bad luck in recent years. Businessmen did not get involved in politics. We have left difficult problems to old-time politicians and army generals. The Malvinas crisis will make us change course and grow in the future.

You want the Argentine government to change its economic policy and return to negative interest rates—a subsidy to debtors like yourself. Otherwise you cannot service your debts.

Capozzolo: Only if the government absorbs our debts can we avoid a great inflation and stop spending 24 hours a day on financial problems. High interest rates were eating away our capital. Nowhere else in the world are there interest rates like these. We could tolerate interest of 50% for a while, but not 200%. [My companies] waited for interest rates to become normal again, but we could not wait any longer [and so defaulted].

Argentina is a great country, with natural wealth that is God's blessing. We produce protein to feed the world, and we could produce double what we are producing now. But we have to stop thinking of financial problems and start thinking again of production. Argentina can become powerful again in 24 months. ■

War in Lebanon made you worry about oil? A consolation: The Strategic Petroleum Reserve has a couple of months' supply.

Ace in the hole

A salt dome at the Strategic Petroleum Reserve in the swamp at Bayou Choctaw, La. "The President has another card to play before he sends in the Marines." Today, a quarter billion barrels of crude is the U.S. insurance policy.



By Allan Dodds Frank

CLAPPING HIS CUPPED HANDS, Chuck Everett stands knee-deep in swamp grass at Bayou Choctaw, La., trying to call up a 6-foot-long wild alligator that sometimes churns forward from the ooze to feed on Wonder Bread tossed by Strategic Petroleum Reserve workers.

"Must be too hot today, even for gators," says Everett, the site manager, in 94-degree heat. Turtles bask on mangrove stumps, white herons parade shallow canals, and large floating plastic milk bottles mark spots where local Cajuns have tossed baited hooks to gar, huge primeval fish.

But 2,100 feet beneath the swamp is oil, the rainy-day hoard that is to insu-

late America from the shock of another oil embargo. After years of technical problems, environmental hassles, cost overruns and natural disasters, the supply is building.

Oil from Mexico, Saudi Arabia, Alaska, Dubai, Egypt, Oman and the North Sea is being pumped into salt caverns, the holding tanks of the Strategic Petroleum Reserve (SPR). Today 264 million barrels, 290 million by year's end, are stored in 16 salt caverns and one old mine on four sites in Louisiana and one in Texas. In all, a 65-day supply at 4.5-million-barrel-per-day import levels.

C. Curtis Johnson, a former NASA official and college physics professor who is SPR project manager, says he can pump oil out of SPR fast enough

to make certain that in a severe world shortage "the President has another card to play before he sends in the Marines."

When President Ford started SPR in 1975, mining huge caverns in salt domes and filling them with oil was supposed to be easy. Scores of salt caverns and mines already had been built by Morton Salt, Allied Chemical and other companies in Louisiana and Texas. All the government needed to do was hook up a few pipelines, drill a few holes and begin pumping oil purchased on the spot market. But things were slowed by hurricanes, floods, a fire and the mating seasons of Louisiana alligators and brown pelicans.

Many available caverns proved to be too shallow to support oil storage under 600 to 800 pounds of pressure per square inch (which is what happens when you have 2,000 feet of dirt piled on top) or were otherwise unsuitable for repeated usage. And the Department of Energy had not realized it needed to rinse drill rigs constantly with fresh water to prevent anhydrites—impurities in salt—from gumming up drill strings.

More important, mining salt by dissolving it in fresh water takes time. To create a cavern in salt, a hole is drilled 2,500 feet deep into a salt dome, a structure that typically is two miles or more wide and up to ten miles deep. Then, for each seven barrels of fresh water pumped in and drawn off as supersaturated brine, one barrel of storage space is created. A candle-shaped cavern 200 feet wide and 2,000 feet high is etched from salt and simultaneously filled with oil. It takes two years to drill and leach a 12.5-million-barrel cavern designed to hold 10 million barrels of oil.

So the 750 million barrels that were planned for SPR won't be reached until 1989-90.

Turning on the oil spigot requires only water to pump into the caverns and force the oil out. Proceeding as fast as possible, SPR workers pump more than 1.8 million barrels of brine from West Hackberry, La. and Bryan Mound, Tex. into the Gulf as 200,000 new barrels of storage are created daily. Tests by McNeese State University and Texas A&M Research Institute have proved that the added salt and heat from brine mining have done almost no harm to Gulf marine life.

But with each new shake-up in the Arab world, Congress—especially the Senate—worries that today's fill rate is not fast enough. One reason for anxiety is that the current fill rate is only making up for lost time. Jimmy Carter suspended filling SPR because

oil supplies were short and expensive and because the Saudis had warned that they didn't appreciate American stockpiling. Only 63,562 barrels per day were put in during 1979, 44,109 in 1980. The Republican platform pledged a rapid filling of SPR. When Reagan came to office, in the words of Curtis Johnson, "he said 'fill that rascal,'" and about 335,000 barrels per day were emplaced in 1981.

The Reagan wisdom in doubling SPR's holdings is demonstrated by the political reaction to heavy fighting in the Middle East. Unfortunately, the SPR is taking on the unmistakable aroma of pork. The steel industry, tank fabricators and owners of hundreds of already built but idle tanks and tankers are lobbying hard for congressional action to order SPR to lease

them as temporary storage space and to construct permanent above-ground space in dispersed regional depots, not just along the main spike of refineries and pipelines near the Gulf. There also already exists a requirement that 50% of the oil purchased for SPR be transported in American tankers, a practice that adds \$1 per barrel.

The Reagan Administration is trying now to restrain spending on SPR. Senate Budget Chairman Peter Domenici (R-N.M.) makes the argument that SPR should not be filled faster than salt caverns can be mined. The domes are safer and leak-proof—because salt is somewhat plastic and self-sealing. The domes are also much cheaper, costing \$2.50 per barrel to mine and 10 cents per barrel annually to maintain. That compares with steel tanks, which would cost \$5 or more a barrel to construct, \$2.50 to \$3 a barrel for attendant pipelines and terminals and \$1.50 to \$2 a year to maintain.

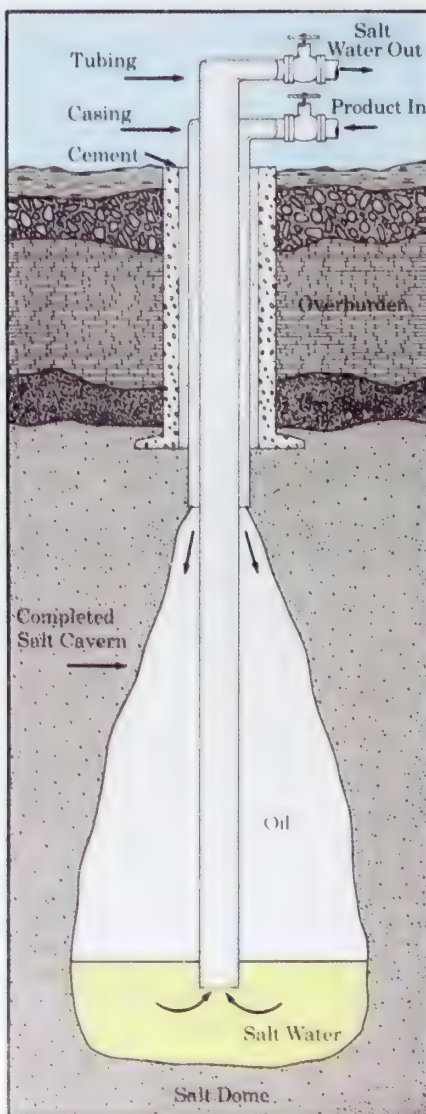
Meanwhile, at Bayou Choctaw, an old salt cavern site 12 miles southwest of Baton Rouge, and the new U.S. oil terminal at St. James, an old Acadian settlement 39 miles south by pipeline along the Mississippi River, the SPR confronts a new peril. Four caverns at Bayou Choctaw hold nearly 44 million barrels of crude, much of it from the six-year 110-million-barrel agreement negotiated with the Mexican government oil company, Pemex.

But a Baton Rouge lawyer, several barge workers he represents and a Louisiana natural resources department investigator claim that some of the oil has been stolen. In 1977-78, before the pipeline to St. James was completed, they say, perhaps as much as 9 million barrels of oil on barges was secretly swapped for slop oil and hazardous wastes that were then pumped into the domes. SPR officials vehemently deny the charges and the U.S. attorney for Baton Rouge, Stan Bardwell Jr., told FORBES that tests show no large amount of bad oil pumped into the caverns. If any oil was stolen, says Bardwell, it was small amounts siphoned from barges that amounted to little more than shoplifting. The cost of such allegations to SPR is delay: Pumping was disrupted while the DOE inspector general collected evidence recently.

Filling the storage sites isn't the sort of thing that makes headlines. The pump-'em-faster and pork-barrel contingents notwithstanding, unsung Jerry Ford and lately Ronald Reagan have given the country an insurance policy against Middle East oil blackmail. ■

Storing oil

Fresh water dissolves salt; brine is pumped out, oil pumped in. A cavern holds 10 million barrels.



Idealists who clamor for a nuclear freeze may be sending a dangerous message.

Naiveté can kill you

By John Train

It's a lot easier to mount an antimuclear demonstration in New York than in Moscow. Such demonstrations probably evoke glee rather than awe in the Kremlin. For a hard-headed if admittedly partisan view on nuclear disarmament, FORBES Columnist John Train recently interviewed General Pierre Gallois, the father of France's force de frappe. General Gallois has devastating comments for those who advocate unilateral nuclear disarmament.

PIERRE GALLOIS RANKS as one of the most original strategic thinkers of modern France, perhaps comparable to de Gaulle in the 1930s. An airman, he flew in bombers from England in World War II and after the war joined the general staff of the French air force. General Gallois urged upon President Charles de Gaulle a deterrent force independent of the U.S. nuclear umbrella, which, he held, could not be depended on after the Soviets had achieved their own intercontinental nuclear force.

A country, Gallois argued, would risk its own total destruction only to protect itself, not to protect another country. So France's defense must be under French control. Thus arose the *force de frappe*, the independent French nuclear deterrent. In a crisis, France may be the only continental power able to resist Russian nuclear blackmail. Indeed, one of his key strategic ideas, shared at the time with General Eisenhower, is that the surest defense against Russian attack is the assurance of nuclear retaliation; under such circumstances, an exact nuclear balance loses its importance, just as a big man with a pair



General Pierre Gallois
Nobody bothers wasps.

of six-guns cannot ipso facto push around a small man with one six-gun. Now retired from the French air force, General Gallois serves as a consultant to a major French aircraft company and writes on military-political strategy.

I called on the general in his apartment near the Parc Monceau in Paris. A stocky man with a round head and keen features, the general spoke in French with dry precision.

"The Russian leaders," he began, "have had such success in their campaign to weaken us, not only because we are naive and irresolute, but also because they have held their positions for so long and have learned the game exceedingly well. Gromyko has held his post since 1957. Admiral Gorshkov, who created the modern Soviet navy, since

1956... a great naval strategist, incidentally. The only figure of comparable stature on our side has been Admiral Rickover. By the time our leaders learn what has to be done, get it through a hundred committees, sell it to the public—if they can sell it—and raise the money, it's usually too late. The Soviets do most things badly, but they conceive and execute foreign policy much more effectively than we do. There have been 5 top men in the U.S.S.R. since World War II, compared with 8 U.S. presidents and 30 governments in France. They have an immense advantage in continuity of purpose and method.

"Even should we achieve numerical parity in Euromissiles, we will not have equality. Our missiles must be deployed in heavily populated Western Europe; theirs can be in relatively empty country. So our posture is much more dangerous. That has triggered the current European wave of pacifism and neutralism. The Soviets may offer a 50% cutback in their SS-20s in exchange for no Pershing II or cruise missiles. That would delight the pacifists. But SS-20s have three warheads per missile. Even after a cut the Soviets would have several hundred, enough to destroy every important conventional target in Western Europe. If for any reason Western Europe turns down the Pershings and the cruise missiles, then there's no significant European deterrent, and it's game, set and match to the Russians.

"It's like the Falklands. Had the British stationed a battalion there, instead of a company, showing that they really meant business, the Argentines would have kept hands off. Think how much better off everybody would be—not only the British and the Argentines, but particularly the U.S., which will be the real loser. It's much harder to fight your way back than to deter trouble in the first place.

"The real solution, could it be achieved, would be for Europe to have its own submarine-borne nuclear deterrent. That would answer a lot of objections."

Did General Gallois think that the current buildup in NATO's conventional strength would suffice to deter the Soviets?

"Not in the least." He produced a collection of charts. "The U.S. is asking for a 3% annual buildup in real terms. NATO has some 25 divisions

in Central Europe. So that would mean 26, then 27, then 28. But the Warsaw Pact can field up to 180 divisions. What's more, you mustn't just compare those two force levels or whatever force level you prefer to use for the Pact. Many of NATO's divisions are on the flanks, in Turkey, Norway, and so on. But if the Russians concentrate on the central front, ignoring the Scandinavians and Southern Europeans—who aren't going to march into Russia—their superiority will be overwhelming.

"A cardinal point of Soviet strategy is that the Red Army must always win. Once they start, they have to win at any price, including a nuclear price. We mustn't let them smell an easy victory. They must always see a very dangerous adversary."

"It's sometimes observed that if you seize a wasp, the wasp will infallibly sting you, even though it dies," I said. "So nobody bothers wasps."

"Exactement," the general said.

But wouldn't any nuclear war in Europe devastate everything there, and thus remove Russia's interest in taking over Europe?

"You are behind the times, Monsieur." The general exhibited a graph showing the evolution of nuclear yields required to destroy a specific objective over the last 20 years.

"One kiloton will soon serve where once five megatons were required, because of the much greater accuracy of today's missiles." He produced a map of Europe's airports, encircled by shadows showing the blast radius of a pinpointed missile. "As you see, the Russians could eliminate almost any airport in Europe without hitting the city it serves. Now, thanks to high-precision missiles, you will be able to immobilize a country without destroying it. Look at this."

He produced more charts. "The U.S.S.R., using its SS-20s and other weapons, could destroy NATO's power without attacking U.S. conventional units. Do you think that if the Soviets did that, a U.S. President would order national hara-kiri by launching a nuclear attack directly against Russia itself? Never!"

So President Reagan was right in admitting the possibility of a nuclear war confined to Europe, whatever the unwisdom of talking about it?

"Of course. Such a surprise surgical strike is infinitely more likely than

the conventional war NATO contemplates. Look at this." He produced a map showing the heavily industrialized areas of Germany, following the Rhine from the North Sea to Switzerland. "There isn't any more 'north German plain.' It's become towns and factories, difficult country for tanks." (I had heard the same at U.S. Army headquarters and from U.S. field commanders.) "Starting out with an old-fashioned war, a war of attrition, is the last strategy the Soviets would contemplate, even though that's what NATO is prepared for. It would give NATO time to mobilize and allow the U.S. to reinforce its troops in Europe. No, they'll go for the precise disabling blow, and then defy the world to do anything about it."

What does General Gallois think



French missile silo

Will France alone be able to resist?

actually will happen?

"There are a number of reasonable scenarios. The first is the neutralization of Germany. The U.S.S.R. expects to control, in Africa and elsewhere, more and more of the raw materials that Germany requires. One day they can call in the German leaders and say, 'In the last war you killed 20 million of our people. Now it's our turn. If you move a muscle, you'll be atomized. But if you accept our offer, you can have reunification with East Germany, possibly even under Bonn's aegis in some form. We'll provide the raw materials you need, and the market for your finished products. But there's one condition: The U.S. must leave Germany.' If the Germans accept that, the rest of Europe will lose heart, and Finlandization—or Sovietization—is inevitable."

"Then, there's the piranha technique—cut off so many slices that the victim bleeds to death: Syria, Central

America, Afghanistan, South Yemen pressuring Saudi Arabia, fanning neutralism in Germany, Iran. In the future may come a bite out of northern Yugoslavia, intensified pressure from the Kola Peninsula or a move into Baluchistan, while India annexes northern Pakistan.

"A third scenario is the implantation of Marxist regimes in countries with raw materials vital to us: Saudi Arabia, southern Africa and so on. There are dozens of other possibilities not mutually exclusive."

Still, would Germany really make a deal with Russia?

"It depends on America. These waves of pacifism and neutralism sweep over Germany every few years and then subside. It should subside this time, too. But if we do everything

wrong, then it might not. If you renounce the first use of nuclear arms in self-defense, if the Pershing II or cruise missile is not deployed, if you keep telling the Europeans they're rich enough so that they must do more or you'll pull out, or if the Kennan-McNamara approach catches on, then Europe is done for."

Didn't the general respect the Kennan group, which now urges a "no first use" policy?

"The Ambassador Kennan who wrote the famous 'long telegram' to the

State Department was a notable statesman. The present Kennan is, frankly, very old, not the same man. Everything he said then about dealing with the Soviets is as true now as it ever was: You've got to be strong, frank and brutal, like them. Never give away anything they haven't earned. Any other negotiating posture they consider contemptible."

"When Kennedy met Khrushchev in Vienna and delivered a sermon about the aspirations of humanity, Khrushchev sized him up as a patsy and concluded he could probably get away with putting missiles into Cuba. I've been looking at the Cuban missile crisis section in *A Thousand Days*. What a group of amateurs! What arrogance and fatuity! Half the Kennan 'gang of four' are the same individuals. So clever, yes, but often so wrong."

Having known the world for a long time—Russia, Europe, America—did General Gallois think the West would pull itself together?

A long pause. Finally, the general shrugged. ■

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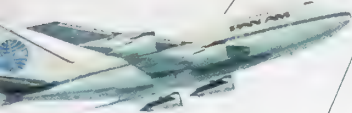
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Studying ways to improve your company's productivity? Cancel that plane ticket to Japan. Go to Cleveland instead.

This is the answer

By William Baldwin

A DRIVE ALONG the Cuyahoga River, past Cleveland's broken factory windows and abandoned steel mills, might convince you that America's older industries are dying. But continue just beyond the city limits, to East 222nd Street, and you will come upon a thriving 87-year-old manufacturer that disproves all the stories about lazy American workers. It's Lincoln Electric Co., little known outside its field of arc-welding equipment and induction motors.

Last year it paid its 2,624 workers an average of about \$44,000. Many of the production workers, who are paid on piecework, did even better. The company hasn't had a layoff in over 30 years. But this is Cleveland, not Japan. Whoever heard of guaranteed employment in Cleveland?

With their more liberal fringe bene-

fits, U.S. steel and auto workers come close to matching the pay of Lincoln's factory workers. But they have done so at the cost of pricing themselves out of jobs. That isn't about to happen at Lincoln. In arc-welding equipment, where Lincoln is world market leader and does 93% of its sales, U.S. exports outnumber imports 3-to-1. The main reason for that is Lincoln's extraordinary productivity gains. In 1915 Lincoln was selling one of its earliest arc welders for \$1,550. The price of a comparable model today is \$996. In the intervening 67 years, Lincoln's average factory pay has climbed 100-fold, to about \$21 an hour, including a year-end bonus that effectively doubles base pay.

Quite simply, Lincoln workers are turning out their machines faster and faster. They have run General Electric out of the arc-welding business and squeezed Westinghouse into a small

corner of it, leaving several privately held firms as the chief competition. So confident is Lincoln of its market position that it guarantees minimum employment of 30 hours a week for regular employees with at least two years' service. That is quite a pledge. Arc welders, which fuse steel with a 6,000-degree electric current, are used to build ships, skyscrapers and oil rigs. Lincoln's business, then, is acutely cyclical. Yet the employment guarantee has been honored every year since it was put in writing in 1958. Since 1951, in fact, no employee, even one with less than two years on the job, has been laid off. It's all in keeping with the declaration by James Lincoln, who ran the company for 51 years until his death in 1965, that the needs of workers come first and shareholders' rights second.

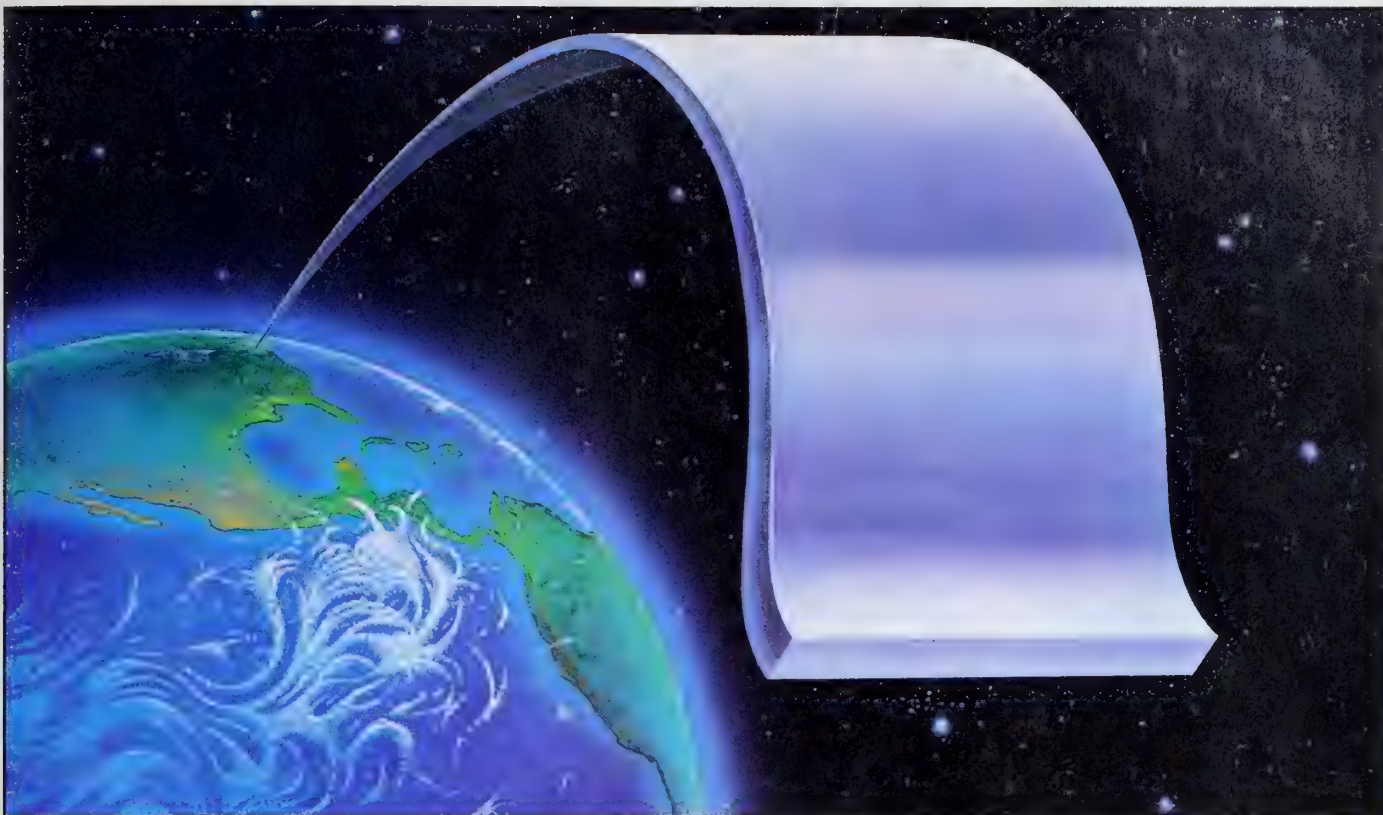
If that sounds like an attack on capitalism, look at the company's financial statements. It earned \$39.8 million last year on \$542 million in revenue and paid \$13.5 million in dividends. Return on equity was 19%. At \$28.95, earnings per share have climbed better than tenfold over the past two decades. Says Norman Berg, a Harvard Business School professor and Lincoln admirer: "Patents aren't important in their business. They just plain run it better than anybody else."

And they toil. "They don't give anything away. You work for it," says a 16-year veteran at Lincoln. Unlike the tonnage bonuses common in the steel industry, Lincoln piece rates are not a supplement to base pay, they *are* the base pay. If a worker calls in sick, he doesn't get anything. If he lets a defective machine through, he fixes it on his own time.



Lincoln tool-and-die makers Kenneth Palmquist, a 16-year veteran, and Joe Ulrich, a 45-year veteran

Does piecework pay lead to "early burnout," as is sometimes alleged, or to bitter fights over line speed-ups? Evidently not at Lincoln Electric, where turnover is unusually low and productivity unusually high. Pay is unusual too: an average of \$44,000 last year.



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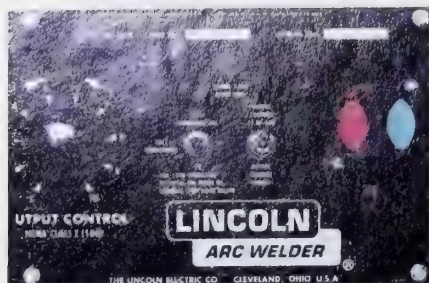
This commitment will enhance LTV's position as a leading producer of oil country tubular goods as well as providing new markets for American steel.

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Lincoln has also engineered various devices to maintain steady factory employment—a neat trick in a cyclical business.

"At the end of each day the guy in charge of the line told you how many you turned out and how much you made," says David Ulstad, a college student who crated motors last summer in the 39-acre plant on East 222nd Street. "There were some days I went home knowing I made \$100." That was without any profit-sharing bonus; the four other men on Ulstad's team, all permanent employees qualifying for the December bonus, made roughly twice as much.

In the Lincoln system of "incentive management," the worker is expected to be self-motivated. If he can rearrange his work space or tasks to get a job done faster, he is free to do so—and will pocket more money. The company doesn't object if someone figures out a way to beat the times figured into the piecework rates, since the higher volume will spread overhead costs over more pieces. The worker will get rich, but so will the company. Or the worker could turn in a suggestion for restructuring the job, losing the piecework windfall but gaining bonus points in return. Bonuses, awarded for teamwork and reliability, average something close to 100% of base pay in most years, but vary widely from worker to worker.

It's a competitive system, and it's not for everybody. "There's a lot of backstabbing," complains one machine operator who left after 13 years when he couldn't get a job transfer he wanted. Some workers quit after a few days, complaining the factory is a "sweatshop." For a few weeks in the summer, it is: no air-conditioning. But the turnover rate is only 6% a year, about a sixth the rate for electric manufacturing in general. Lincoln has found that, in attracting a dedicated work force, cash is an unbeatable fringe benefit.

The employees, for their part, are constantly reminded that there is no free lunch. They once voted down a dental insurance plan, fearing it would cut too deeply into profits and thus their bonus checks. For the same reason they don't challenge the lack of air-conditioning. In peak years, like 1981, overtime is mandatory. When orders are slack or machines broken,

workers accept arbitrary job reassignments. Sometimes the substitute assignment pays worse than the regular one. There are no seniority rights.

The system would be a sure formula for factory revolt if management had not built up a certain amount of trust and esprit de corps. The company has an employee-elected advisory board and doesn't hire executives from the outside. Chairman William Irrgang, 74, started out 53 years ago on piecework in the armature-winding department. He gets no fringe benefits his workers don't get and eats in the same spare cafeteria. Of course he gets paid well—on a formula based on a percentage of sales that netted him \$510,665 last year. But he and other executives keep their doors open to workers with gripes.

And the managers go to great lengths to protect jobs on the factory floor. In bad years they have workers building for inventory and salesmen trotting out new automated and solid-state products kept on the shelf for these rainy days. In boom years, when short-term profits beckon, management resists the temptation to expand hiring. The employment guarantee, in turn, is worth a lot to the company. Because of it, workers need not fear that productivity gains would cost them their jobs.

The contortions the company goes through to smooth output pay off in another way. You have perhaps heard of *kanban*, the on-time delivery that allows Japanese automakers to run with a few hours' inventory. Lincoln has been practicing a version of this technique for years. It has no central stockroom; supplies are delivered directly to a work area through one of the many loading docks in the oblong factory in which work flows crosswise.

The system works only if Lincoln's suppliers are reliable. They are, because they want the predictable, steady business that comes from a company that is deliberately shaving the peaks and valleys in the demand for its products.

It helps that Lincoln pays promptly. It can afford to. Its astonishing balance sheet includes no debt, and cash in excess of all liabilities. Lincoln

boasts that the chairman of a big steel company once interceded to make sure a load arrived at Lincoln on time. Incentives play a role here, too. If there is a supply interruption, bonus points in the purchasing department are docked.

Productivity through incentives is a goal for which many an employer has striven, rarely achieving the lasting success seen at Lincoln Electric. But if incentive management hasn't swept the nation's work places, it was not for want of trying by James Lincoln, an energetic, commanding man who worked until the day before his death at 82. He took over the company from his older brother, John, who had founded it as a motor manufacturer in 1895. John, with 50 patents, was the technical genius who foresaw the potential of arc welding when it was in its infancy.

James Lincoln was the inspirational dynamo who instituted the piecework system in 1914 and the bonuses in 1934. In speeches, books and articles, James preached hard work and competition, and railed against unions—and the IRS, which told him he was overpaying his blue-collar workers and tried for a while to disallow corporate wage deductions.

Seventeen years after James Lincoln's death his rugged Darwinism lives on. It's not uncommon to hear a factory worker spout Lincolnesque diatribes against featherbedding and paid holidays. Irrgang, Lincoln's hand-picked successor, need not fear a takeover upsetting the delicate community of interest between worker and company. Better than 80% of Lincoln Electric stock is controlled by employees, retirees or sympathetic Lincoln heirs who sometimes offer shares to the company at below market for resale to employees.

The one conspicuous change since Lincoln's death is that the company has taken to hiding its arc under a bushel. The brilliant but bashful Irrgang, who designed the factory and Lincoln's top-secret extrusion devices for making welding wire, doesn't talk to the press or allow any of his executives to.

In its reclusive, iconoclastic way, Lincoln Electric remains one of the best-managed companies in the U.S. and is probably as good as anything across the Pacific. Indeed, Harvard's Professor Berg recently lectured a group of Japanese businessmen on the Lincoln success story. Says Berg: "Their reaction was, 'What's so unusual about this? It seems to us like a typical Japanese firm.'" Maybe he should lecture closer to home. ■



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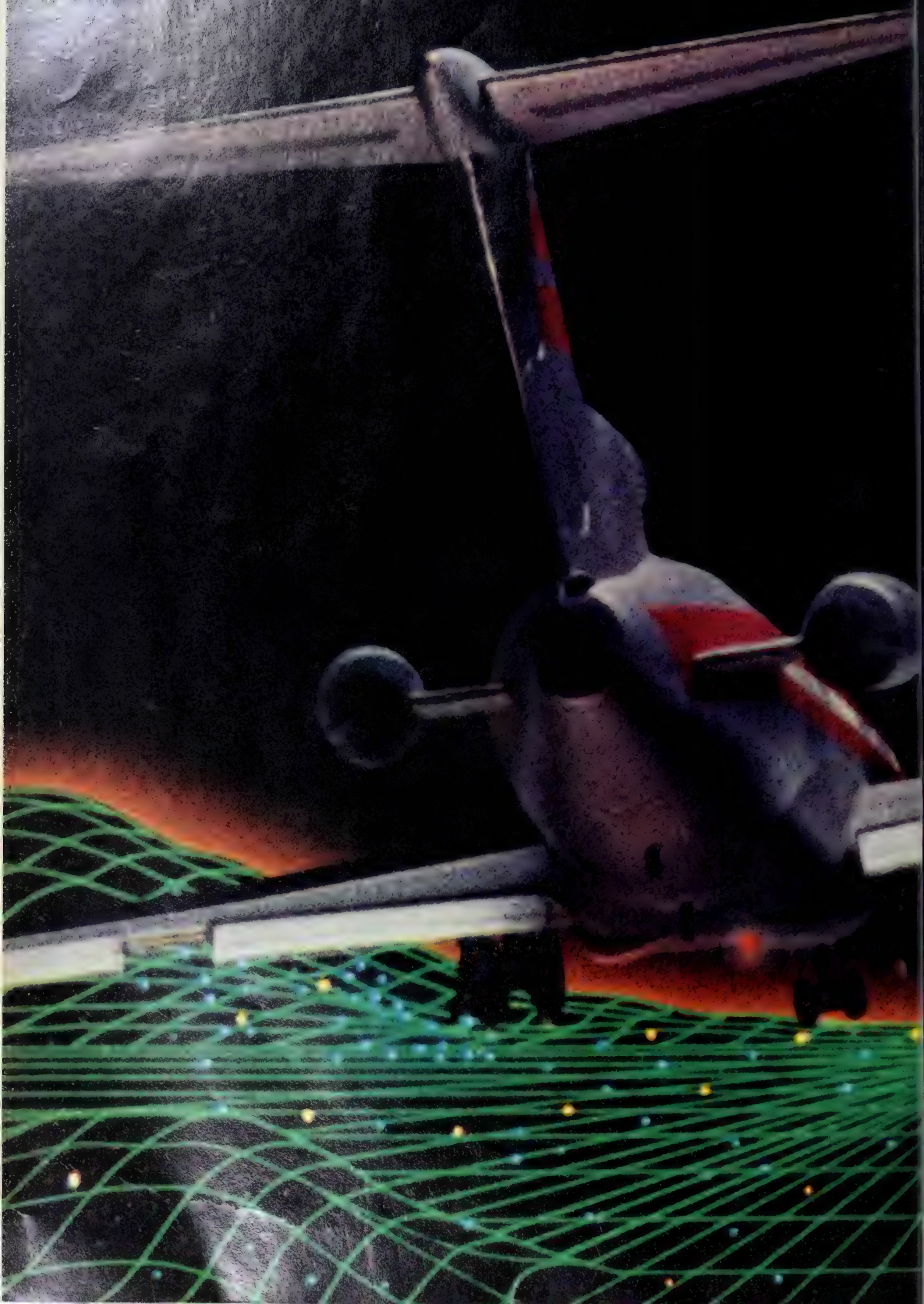


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If everyone says 10.5 million were unemployed in May, does that mean 10.5 million were unemployed? No, it doesn't.

Counting heads

By Jerry Flint

UNEMPLOYMENT REACHED 9.5% last month, its highest level in 41 years, leaving more than 10.5 million Americans out of work," said *Newsweek*. "A rise of 242,000 from April," said the *New York Times*. "Unemployment hit another post-World War II high last month," said the *Washington Post*. Daily newspapers around the country and TV news, too, said about the same.

In fact, the number actually unemployed estimated by the Bureau of Labor Statistics was not 10.5 million in May, but 9,957,000. The number out of work in May did not actually increase at all over April and was lower than the number out of work in March, February and January. The unemployment percentage based on the number estimated to be jobless has actually been declining since February, and was 9.1% in May.

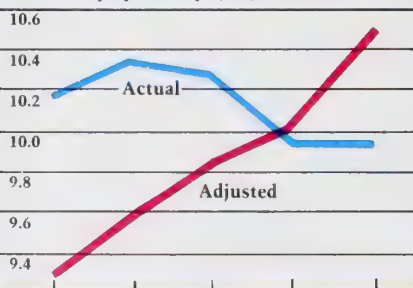
The lower estimates were those made by the BLS after the monthly chore of knocking on doors and telephoning 60,000 people to ask them if they are working. The higher unemployment figures are from the BLS, too, which takes the actual estimates and seasonally adjusts them—that is, runs them through a complicated formula to wash away usual seasonal effects, Christmas hiring or January layoffs, the school-is-out job hunt or the fall production buildup.

Washing out those seasonal factors, in theory, allows everyone to see major trends more clearly. In May, for example, unemployment neither increased nor decreased. But because unemployment usually drops in May, the BLS formula interpreted the month's results as meaning unemployment was on the way up—seasonally adjusted.

Adjusting for "adjustments"

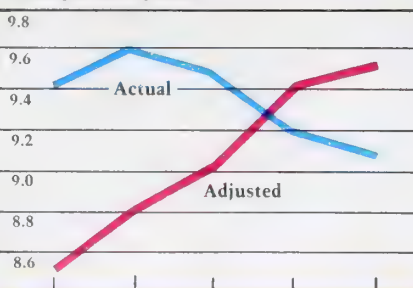
The number of Americans out of work has remained high so far this year, but it has been fairly steady. You would never know it, however, if you measured the unemployed only by the "adjusted" figures reported by the Bureau of Labor Statistics. Those adjustments are based on historic patterns, and this year the patterns have been misleading.

Number of people unemployed (millions)



The disparity between unadjusted and adjusted totals of the unemployed is clear in those numbers as a percentage of the work force—a staple of inadequate journalism on jobs.

Unemployment (percent)



Source: Bureau of Labor Statistics

"My problem is not in the concept of seasonal adjustments. The objection is how the press treats them," complains John Cogan, Assistant Secretary of Labor for policy, evaluation and research. "They treat them as actual changes, which they are not."

Jack Bregger, a division chief at the BLS, is a firm believer in the adjusted numbers as the way to spot changes and trends. "That doesn't mean you should be a slave to adjustments," he says. "When you have an abnormal time, like a recession, the movement can be confused with cyclical movements." In January, for example, the actual number unemployed jumped to 10.2 million, from 9 million in December. The seasonal adjustment formula called for a still larger month-to-month increase in joblessness. Seasonally adjusted, then, the BLS figures showed a decline in joblessness in January and a lowering of the unemployment rate. The formula was fooled. What probably happened is that business was so bad, people normally laid off in January were axed—or not even hired—in November or December.

The formula may have tilted again in May, too. People who used to come into the labor market in June are coming in during May, partially at least because schools now end earlier. The change isn't built into the formula yet. Result: The seasonally adjusted unemployment figure of 9.5% may be too high and June's may be too low. "If it comes out 9.2%," cautions one BLS numbers expert, "don't be surprised."

The seasonally adjusted jobless figures show a steady climb in the first half of the year, from 9,298,000 in January straight up to 10,549,000 in May. The unadjusted figures show high but relatively level unemployment: 10,183,000 in January and 9,957,000 in May. "I'm not sure we live in a seasonally adjusted world," President Reagan said recently about the difference.

Traditionally June's unemployment is up about 1 million from May because younger people are moving into the job market after school. The seasonal adjustment usually discounts them. If there aren't as many looking for jobs this summer, a false impression of dropping unemployment may be created.

Printing or telling TV viewers the actual numbers, then explaining the seasonally adjusted number, might be a better way of showing people what's happening in the economy. It might take an extra sentence or two, but it would be worth it. ■

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Remember John King? He went bankrupt. He went to jail. He had three strokes. Now, he wants to start a new oil company.

The once and future King

By Richard L. Stern

OIL MILLIONAIRE GONE BUST, John King stands before a blackboard in his office on Denver's Larimer Street talking business again—and worrying about his weight. King, 6-foot-3 and 240 pounds, draws wiggles and lines representing known U.S. petroleum reserves to bolster his argument that there are still oceans of undiscovered oil in the Western Hemisphere. At 55, King is on a diet because he is about to launch what he hopes will be the biggest venture of his life. With all that oil out there King aims to get a piece of the action, and, he says, "People don't take fat men seriously."

That's amazing bravado when you consider that thousands of investors lost millions when King went bust in the early 1970s. There's also the fact that he went to jail on charges of fictitious sales transactions involving the oil properties he sold to Investors Overseas Services' Fund of Funds—part of the ill-fated financial empire of Bernie Cornfeld.

But that was just part of King's fall. In November 1976, he was rushed to Denver's Swedish Hospital with a massive stroke.

"Do you know who this is?" one doctor asked as he peered over the stretcher.

"Why, that's John King," said a colleague, "and I hope he dies."

"My God," thought King, "do they hate me that much?" Fortunately, the doctor was not one of the many Denver citizens who had invested in the publicly held King Resources or who bought a tax shelter through the privately held Colorado Corp. He

bore no personal animosity toward King. "I hope he dies," the doctor explained, "because if he lives he's going to be a vegetable." King's neurosurgeon later identified the stroke as Gershamann's Syndrome. The prognosis: "pathetic." King had lost the ability to speak. He could not understand what he heard or saw. He could not read, write or count.

On top of it all, King's wife, Caroline, had divorced him in 1975. She is the daughter and heiress of the late Charles Becker, who built Franklin Life, and she remains a close friend. Explains son John King IV, "My mother just couldn't take it. The years of bankruptcy, the bad publicity, the convictions."

Remarkably, King began recovering from his stroke. In fact, he jokes, "The price I paid for starting to recover is that federal officials figured I was well enough to go to jail—in February 1978." There for 2½ months, King had another stroke, the last in a series of three. Indeed, the world soon lost track of John King. In 1978 the *Rocky Mountain News* carried a small story describing how King was living part time in a halfway house, frustrated at his inability to speak.

It is the spring of 1982 and King is talking to FORBES. "The only reason I'm telling you to come out here," he explains on the phone, "is because I'm getting back into business and I realize the value of publicity." The interviews last off and on for five days—in King's office, at an oil rig outside Denver, in King's 1976 Cadillac, which has a phone specially designed to its owner's specifications.

A naturally hospitable man, King with apologies doesn't want photo-

graphs at the palatial house he maintains in a Denver suburb. There's also a ski house on a mountain in Vail and another residence in Maui—all of which were not subject to King's personal bankruptcy because years ago they had been placed in trust for his four children.

That also causes trouble—and explains why King lives so well. His personal bankruptcy case has dragged on for 12 years. Yet another attempt by creditors to breach those trusts goes to trial in August.

These days, however, King claims it's not money that's driving him. Adventure? Power? Perhaps. "But basically I want therapy," he says. "Nothing I'm now doing will reward me one thin dime."

And just what is King doing? His lawyers advise him that any public statements will hurt his chances with the SEC. But Denver is a small town, so it is not difficult to find people who have heard of King's ambitions for a giant new exploration company. Besides what he is planning for himself, there is a Form 146 prospectus for a separate company to be founded by King's sons, John, 25, and Mark, 22.

Their goal is to raise \$10 million as the first step to a public offering of \$200 million. The company, to be known as Override Resources, would buy up small royalty interests from farmers and other landowners who have sold drilling rights to the major oil companies. With a widely diversified portfolio of overrides, says King, the mathematical probabilities give investors a good likelihood of lavish payoffs.

There's more. Override would also package groups of royalties into portfolios for sale to institutional investors. Moreover, the Kings figure that Override will retain about 10% to 20% of the royalties.

Since the Kings' current credibility with the established investment community is nil, the family is forming its own syndicate to sell common shares of Override. The basic idea is to find investors now associated with the petroleum industry who understand the profitability of royalty interests, but, as oil company employees, are frequently unable to own them directly.

Is all this a fantasy? Probably—but it gets bigger. Though King doesn't get too specific, he has ambitious plans to hunt for oil. There's an oil reserve, he explains, that he uncovered before bankruptcy. It is within the boundaries of the North American Defense

System, safe from unfriendly hands. This reserve may be so big, King claims, that it could bring down the price of oil to perhaps \$18 a barrel. Not one given to minor pronouncements, King also asserts that by lowering the price of oil he will strike a blow against world poverty.

John King the crook is now John King the do-gooder. On Wall Street they're skeptical, but amused. Oil analyst Charles Maxwell says, "King was a man with a Paul Bunyanesque vision." Indeed, Maxwell draws an analogy between King and Boone

Resources holdings are now part of Phoenix Resources, about to be acquired by Texas International. The deal puts a \$120 million market value on Phoenix' stock. Other former King holdings in the Arctic, the North Sea and the Gulf of Suez are worth far more. King says \$50 billion. Others won't go that high, but Daniel Herrington, managing partner of Denver-based Boettcher & Co., says that King was, in his day, one of the best wildcatters around.

Look at the record. King drilled his first well in Oklahoma in 1951 with

over his head. Nixon, he says, had portrayed the salvaging of IOS as a service to the country. That, however, did little to bolster public confidence in King. Money for drilling from the major oil companies and investors stopped coming, and banks withdrew loan arrangements. In his own spectacular way, King went under. "The difference today between me and Cornfeld," says King, "is I take complete responsibility for everything that went wrong. Bernie never did."

Today, walking through downtown Denver, King is a face out of the past.



Denver oilman John King plotting his comeback

Folks on the street give hearty hellos, but will they trust him with their money?

Pickens of Mesa Petroleum. Both overreached to grab valuable oil properties. The oil crisis came in time for Pickens. It was too late for King. Jack Kelly, who is head of the SEC's Denver enforcement division, admits that King was on target in 1969 when he predicted that the Arabs would one day form an effective cartel.

King may be counting on some people remembering his early successes rather than his later troubles. Although King Resources went into bankruptcy with over \$100 million in debts, the portions of the company that were sold off are worth billions today. A South African titanium mine was sold in bankruptcy for \$4 million to Kennecott Minerals Co. and is now producing over \$100 million a year in revenues. Much of the original King

\$3,000 in salary he received as an Illinois state legislator. Then he went on to major finds in Oklahoma, Wyoming, North Dakota and Colorado, but he couldn't handle success.

"I am the living example of the Peter Principle," King explains. A friend spells out the details. "King hired thousands of people. His overhead was enormous. He didn't think the millions coming in from IOS and his own funds would ever stop."

Then, when charges of corruption threatened Cornfeld's credibility, King, as IOS' second-largest investor, decided he could rescue the faltering company. "President Nixon called me to Washington," says King, "and told me that IOS represented \$1 billion a year in balance of payments." King says that in retrospect he was in way

People stare at him in startled recognition and King has a problem. He can't place faces he hasn't seen since his series of strokes. But he catches the look of recognition.

"How are you?" he declares, not really knowing the person that he is addressing.

"Just fine, just fine," says a passerby. "You look great, John."

That's encouraging, but today King wants other people's cash as well as their compliments—and it isn't likely to come easy. Oil deals are financed very differently now than in the fast-and-loose era when he got his start, and it will be difficult for John King to establish credibility. Says the head of a major Wall Street brokerage firm: "He may be coming back, but not with us." ■

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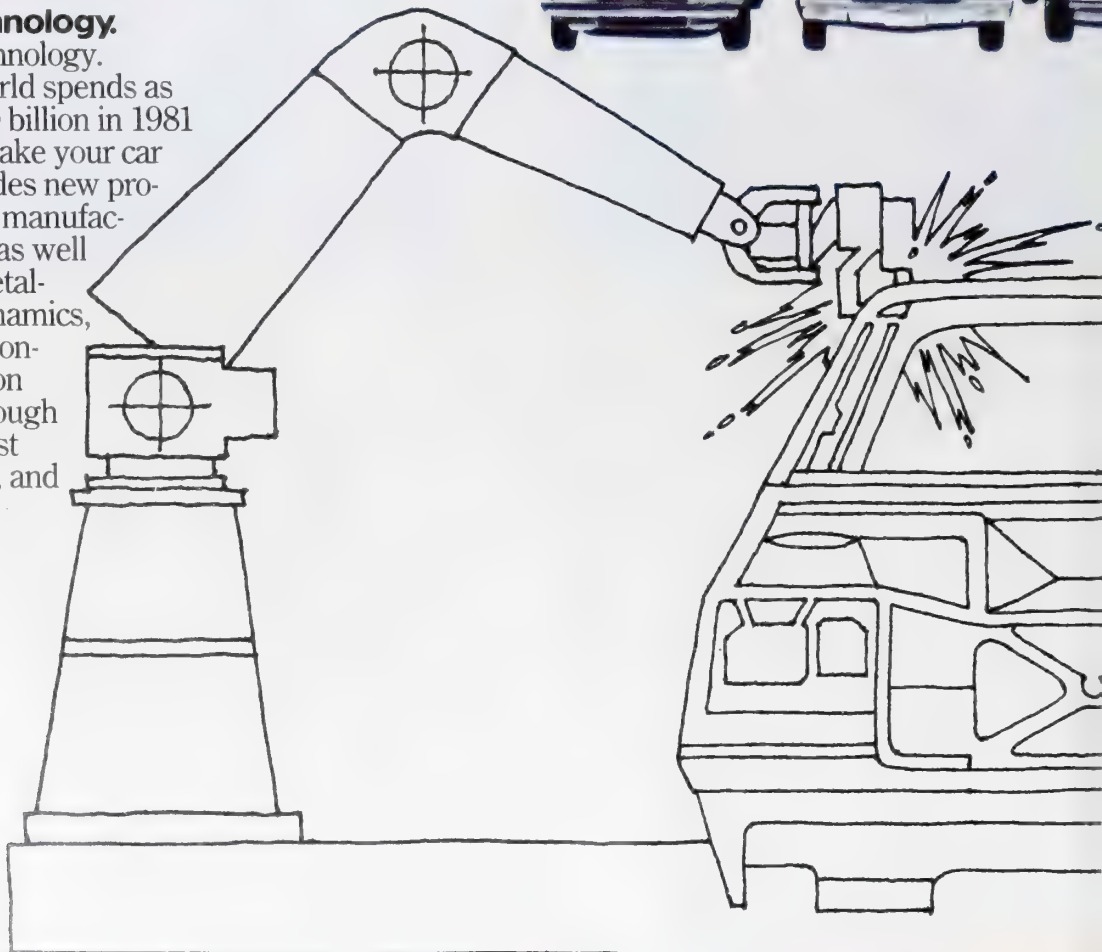
Robert D. Sexton
Quality Control

But even so, some of you might be asking, "What have they done for me lately?"

Well, GM's done a lot. In fact, we're not only the best, we're the best GM ever.

First in technology.

Start with technology. Nobody in the world spends as much as GM (\$10 billion in 1981 alone) trying to make your car better. This includes new products, plants, and manufacturing processes, as well as advances in metallurgy and aerodynamics, new power train concepts, and precision workmanship through the use of the latest computers, lasers, and robots.



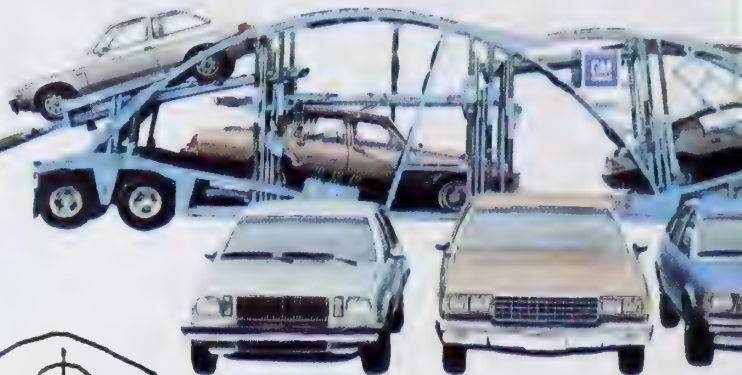
7

Best sellers.

The result is that now GM has seven of the top ten best-selling cars in the U.S.*

Chevrolet's Chevette, Citation, Impala/Caprice, and Camaro, Buick's Skylark, and Oldsmobile's 88 and Cutlass Supreme Coupe are all winners, but they're just the tip of the iceberg, so to speak, of GM value.

We make all kinds of cars for all kinds of people. With all kinds of needs.



*Calendar year through May 1982.

**The GM cars were: Olds Custom Cruiser, Olds Toronado, Buick Estate, Olds 98 (4-door), Olds Cutlass (wagon), Olds Omega

BEST GM EVER

Fuel economy, plus.

Everybody needs fuel economy, and GM has done something about that, too. What with all the technological breakthroughs we've made, we think we now offer the optimum balance of room, comfort, and mileage people want.

Industry leader.

We're very proud that in the latest report from the Insurance Institute for Highway Safety, GM had the eleven top-rated cars.** The report ranked cars according to the frequency with which they were involved in accident injury claims and covered 1978-80 models.

We believe these results reflect not only our cars—their quality, size, weight, and design—but how and where they are driven. It shows that our cars and customers go well together.



A new kind of excellence.

And there's something else. We believe GM stands for something else in the eyes of the American public.

It stands for excellence. And continued excellence. So that now, next year, and the years after that, we need always to be: the best GM ever.

Promise.

We have the commitment to quality, the resources, and the track record. And because of these, we just happen to think we're the one company that can continue to meet the transportation needs of a changing world better than anyone else.



Richard Michael Caras
Engineer



Chevrolet
Pontiac
Oldsmobile
Buick
Cadillac
GMC Truck

"If we had stayed only in the wiring device business, our numbers would look better," says Robert Dixon of Harvey Hubbell, "but we wouldn't be as strong."

Crossed currents

By Thomas Jaffe

IT'S HARD TO STEP beyond a golden niche, even if you have to. No matter where you turn to smooth out the cyclicalities of your earnings, your profitability goes down. Just ask Robert Dixon, chairman of \$446 million (sales) electrical equipment producer Harvey Hubbell Inc.

A laconic, self-made man who spent 12 long years in night school studying electrical and mechanical engineering while working jobs like packing caramels and running a model boat kit factory, Dixon is defensive about Harvey Hubbell's diversification efforts: "If we had stayed only in the wiring device business, our numbers would look better but we wouldn't be as strong," he says. "We wouldn't be as resilient. I even question whether we'd still be independent."

Not that Hubbell has been doing badly. Last year's profits, helped slightly by an accounting change, increased 16% to \$34.6 million. It was the 22nd year in a row earnings grew. Return on equity was a superior 22% on no debt. So how come, the crusty 64-year-old native Philadelphian wants to know, Hubbell is stuck in a market multiple rut of 7? A smaller competitor like Thomas & Betts—a producer of connectors, terminals and fittings—trades at a P/E of 12, though its 1981 earnings rose a mere 3%.

Hubbell's trouble is that it has made 17 acquisitions in the past 20 years, buying its way into \$150 million in high-voltage electrical sales—

cable, mining and transit equipment, insulators and arresters. The company also has bought itself a foothold in the voice and data processing industry, is a leader in wire mesh grips used in handling cable, and most recently paid \$37.5 million for Raco, a \$55 million manufacturer of switches and outlet boxes.

The intent was to eliminate cyclicalities, says Dixon. Hubbell gained



Chairman Robert Dixon of Harvey Hubbell

Wired for profit.

stability. But at quite a price. In 1981 Hubbell's low-voltage products—some 5,000 wiring, commercial and industrial devices, plus lighting products—still accounted for 71% of operating profits on just 48% of volume. (Hubbell manufactures everything from a 33-cent wallplate or \$35 pin and sleeve connector to an \$800 portable power distributor.) In other words, the margins of the original business are nearly double the corporate figure. So, Dixon has a hot \$205 million company sitting inside a scarcely better-than-average \$446 million one.

The main problem is his acquisition in 1978 of Ohio Brass. A producer

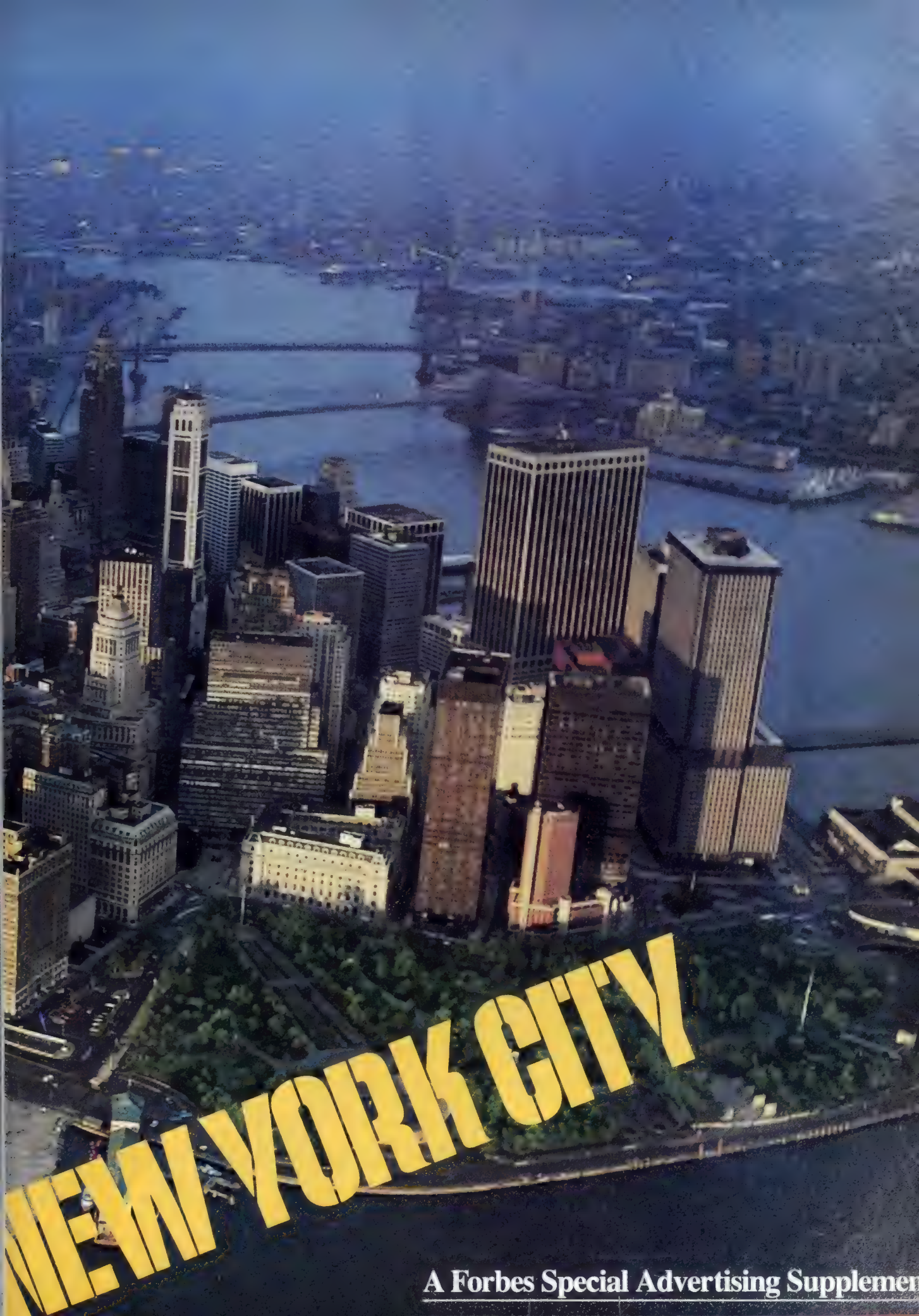
of insulators plus line hardware for power transmission, as well as surge arresters and other cable endings, Ohio Brass initially sent a surge through Hubbell's high-voltage group, which had recorded declining profits over the three previous years. With Ohio Brass on board, the high-voltage group's operating profit more than quadrupled to \$15.6 million in two years. This success was short-lived, however. In 1981 operating profits dropped to \$12.1 million, with no improvement expected this year.

"Over the last year and a half Ohio Brass' performance is hardly anything to shake the world about," Dixon admits. "But its capacity is fantastic." He is counting on two new products in development when Hubbell made the acquisition. First, there is a polymer insulator for transmission lines that is more efficient than the industry standard, which is made from porcelain. To protect electric systems from sudden power surges, Ohio Brass also makes an arrester using an energy-absorbing material superior to the silicon carbide now commonplace. Trouble is, the utility industry must rebound before the potential of these products is scratched.

Meanwhile, Dixon is bankrolling Hubbell's smaller, higher-growth divisions—as well as everything else—by tapping the rich cash flow of the company's low-voltage products. Take the \$8 million factory under construction in Virginia for Pulsecom, its \$20 million (sales) telecommunications business. Over the last five years the low-voltage group's total operating cash flow was \$223 million, its capital spending is only a paltry \$27 million. With a cow like this, it's no wonder Harvey Hubbell has hardly any debt.

Should Dixon want to make an acquisition before he retires in 1983—certainly a possibility given Hubbell's record—he surely can afford to, even at the price tags in the electronics industry. "When we bought Ohio Brass, its sales were 40% of our size at the time," he reminds. "I'm willing to do that again. These days I guess that means we could handle a company with nearly \$200 million in sales."

No matter how successful his wiring device business is, if Robert Dixon wants Harvey Hubbell to get more recognition, he just may have to make that sort of plunge. ■



NEW YORK CITY

A Forbes Special Advertising Supplement

NEW YORK CITY



A MESSAGE FROM MAYOR KOCH

New York City is the center of American business activity. Its thriving commercial and industrial sectors, combined with its cultural resources and international character, make the Big Apple a natural location for private enterprise. Not long ago, because of our fiscal crisis, private enterprise had its doubts about New York City as a place to do business. But today,

the City's remarkable recovery and aggressive pro-business policy have effected a turnaround. In the past four years, New York City has gained 167,000 jobs in the private sector.

New York City programs, including business tax cuts and tax incentives, major industrial and commercial development projects and low-interest financing, have all helped retain and

attract businesses to New York City.

This supplement details how our public-private partnership has worked to create a true economic renaissance in New York City.

NEW YORK CITY AN ECONOMIC RENAISSANCE

With his usual ebullience, New York's Mayor Edward I. Koch refers to what is happening in his city as "a true renaissance."

It is difficult to argue with his conclu-

sion. Between 1977 and 1981 the City has gained 167,000 private sector jobs, a stunning turn-around from the more than 600,000 lost between 1969 and 1977.

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NEW YORK CITY

The vast majority of these new jobs have been in the service category, which increased by 19% over the four-year period.

81% of U.S. advertising agencies with gross world billing over \$100 million are in New York City. So are 71% of public relations organizations with net annual income over \$2 million. Five of the nation's largest commercial banks are there, six of the "big eight" accounting firms, 22 of the top 50 law firms and a third of the leading management consultant and executive recruiting firms.

The increase in service jobs can in large part be attributed to the dramatic growth of international business. There are 2,500 to 3,500 foreign businesses operating today in the Big Apple. Significantly, over two-thirds of them arrived after 1970.

The demand for these new jobs has fueled the spectacular building boom in Manhattan. 2,725,000 square feet were completed in Midtown during 1981 alone. Another 11 million square feet are

scheduled for 1982 and 1983, including the national or regional headquarters of AT & T, IBM and Philip Morris.

In addition, reflecting the expansion of financial services, 19 million square feet of office space are projected for Downtown, with American Express committing 2.3 million square feet for its worldwide headquarters.



KAREN GERARD, Deputy Mayor for Economic Policy and Development.

According to Karen Gerard, Deputy Mayor for Economic Policy and Development, the commitment of corporate giants like these to stay, and grow, in New York City is a tribute to the City's continuing position as the Business Capital of America.

Mayor Koch believes that the principal role of government in promoting economic development is to "get out of the way." Beyond that Mrs. Gerard thinks there is an interplay between government and the private sector that is both subtle and complex. Government's role, she says, is to identify natural forces at work and nurture their growth. In addition, government must, as it has with manufacturing, provide the resources to

stabilize vital components of the City's job-generating mechanism. Robert A. Kandel, Commissioner of the Office for Economic Development, suggests that City economic development efforts combine policy initiatives with specific programs.

Mrs. Gerard cites as examples of government encouraging natural forces, the banking, tourist and entertainment industries. Banking, which has added 20,000 jobs since 1977, is one of New York City's major growth areas. In 1978 City-supported legislation exempted International Banking Facilities from State and City taxes. This was the first step in repatriating billions of Eurodoll transactions and creating as many as 5,000 jobs in the bargain. New York City IBF's, which opened in late 1981, currently have assets of some \$90 billion.

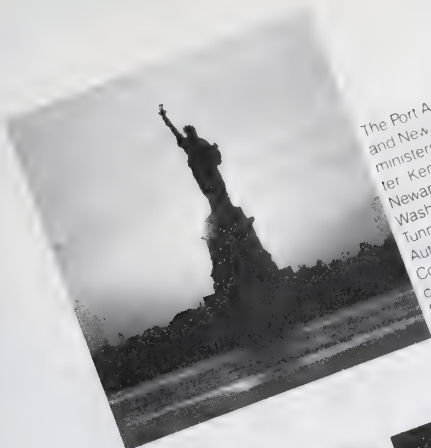
In the case of the \$2-billion-a-year tourist industry, government is strengthening New York's attractions as a magnet for visitors, as well assuming direct responsibility for upgrading convention facilities. The New York Convention and Visitors Bureau, supported jointly by City and private funding, encourages the flow of people and dollars. The New York



WILLIAM E. ELLINGHAUS, President of AT & T, with model of company's new Midtown Manhattan headquarters building.



NANCY LITTLEFIELD, Director of Office of Film Theatre and Broadcasting.



The Port Authority of New York and New Jersey built and administers the World Trade Center, Kennedy LaGuardia and Newark airports, The George Washington Bridge, Lincoln Tunnel, Holland Tunnel, PATH Authority Bus Terminal, the largest Commuter Railroad, the largest container terminals for marine freight in the world, and many other facilities.

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Then we do the unexpected.

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We've already built and now administer three major jetports, seven marine terminals, a network of Hudson River tunnels and bridges, the World Trade Center, a commuter railroad, and truck and bus facilities. We'll get

things done for you, too.

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Write to: Peter C. Goldmark, Jr., Executive Director, The Port Authority of New York and New Jersey, One World Trade Center, New York, NY 10048.

Or call: Industrial Development Department, 1-800-221-5468. In New York: (212) 466-8848.

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the insurance at all. The modest premiums are paid solely by the employee.

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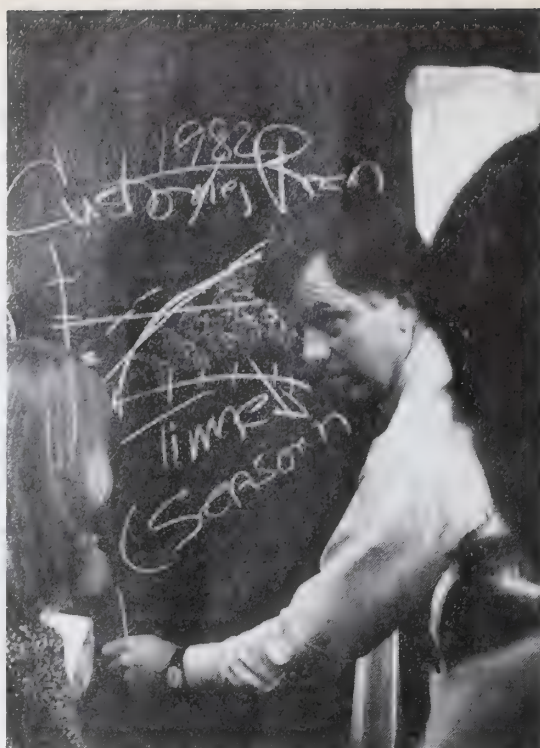


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response time has always been good—but that wasn't good enough for Chemical. Aggressive business needs aggressive banking, so our lending groups are organized to initiate even faster decisions on corporate credit.

Our highly skilled banking professionals reflect a new spirit in Chemical Bank—innovative, constantly improving, winning. You'll see it in our performance and in your financial picture.

What Chemical has done yesterday, what we're doing today and what we're working toward for tomorrow are all part of the tradition of giving you the very best banking service. And now, at Chemical, taking you beyond tradition is our new tradition.

CHEMICALBANK

Chemical takes you beyond tradition.

NEW YORK CITY

y Public Development Corporation
ps the private sector redevelop such
as Times Square and the South
et Seaport. And the State Urban
velopment Corporation is building
8-million-square-foot convention
ter in the West 30's. City officials are
nfident that this will permit New York
ompete for shows which, because
their size, it could not previously
commodate.

Producers of feature films and TV
ows have long recognized the natural
raction of New York City's varied and
orful backdrops for "location" shots.
e City has responded by establishing
Office of Film, Theatre and Broad-
asting. By expediting the ability of pro-
cers to function effectively, it has con-
tributed to the growth of this segment of
economy. Under Director Nancy

Littlefield the Office is attempting to
expand the City's share of movie/TV
business by creating badly needed
studio space.

The Office worked with the Public
Development Corporation to put
together the Astoria Studios project.
This facility, one of the major produc-
tion centers of the silent era, will be
modernized and expanded in a \$50-
million public-private initiative. Other
studios are planned for buildings that
formerly housed a high school, an air-
line terminal and a bakery.

These, Mrs. Gerard explains, are
among the more visible examples of
how government attitudes and govern-
ment programs have complemented
and stimulated natural forces to
increase private sector jobs.

City taxes, as a proportion of income,

have declined since 1977. And the trend
will continue. The State has instituted
business tax reductions and lowered top
rates for income taxes as well. In Mrs.
Gerard's opinion the very creation of the
post of Deputy Mayor for Economic Pol-
icy and Development indicates a new
attitude by the City toward the business
community.

She does not believe, however, that
a Deputy Mayor can, or should, devise
a "master plan." New York City, she
explains, is too large and too diverse.
Rather, she thinks, government, working
"at the margins," can make the differ-
ence between success and failure by
responding to the needs of a particular
time and place.

Paramount among these needs
today is the development of back-office
space. The City is actively seeking to

'We've got a lot of welcome extras for business travelers at our house.'

— Cliff Wright, C.H.A., General Manager



"Business travelers feel right at home
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Program offers them so many welcome
extras: complimentary continental
breakfast, express check-in and check-out,
morning newspaper, a concierge for special
assistance, in-room amenities, and a
luxurious room at check-in.

"We take pride in providing all
this and more in an atmosphere of quiet
elegance and old-world charm.

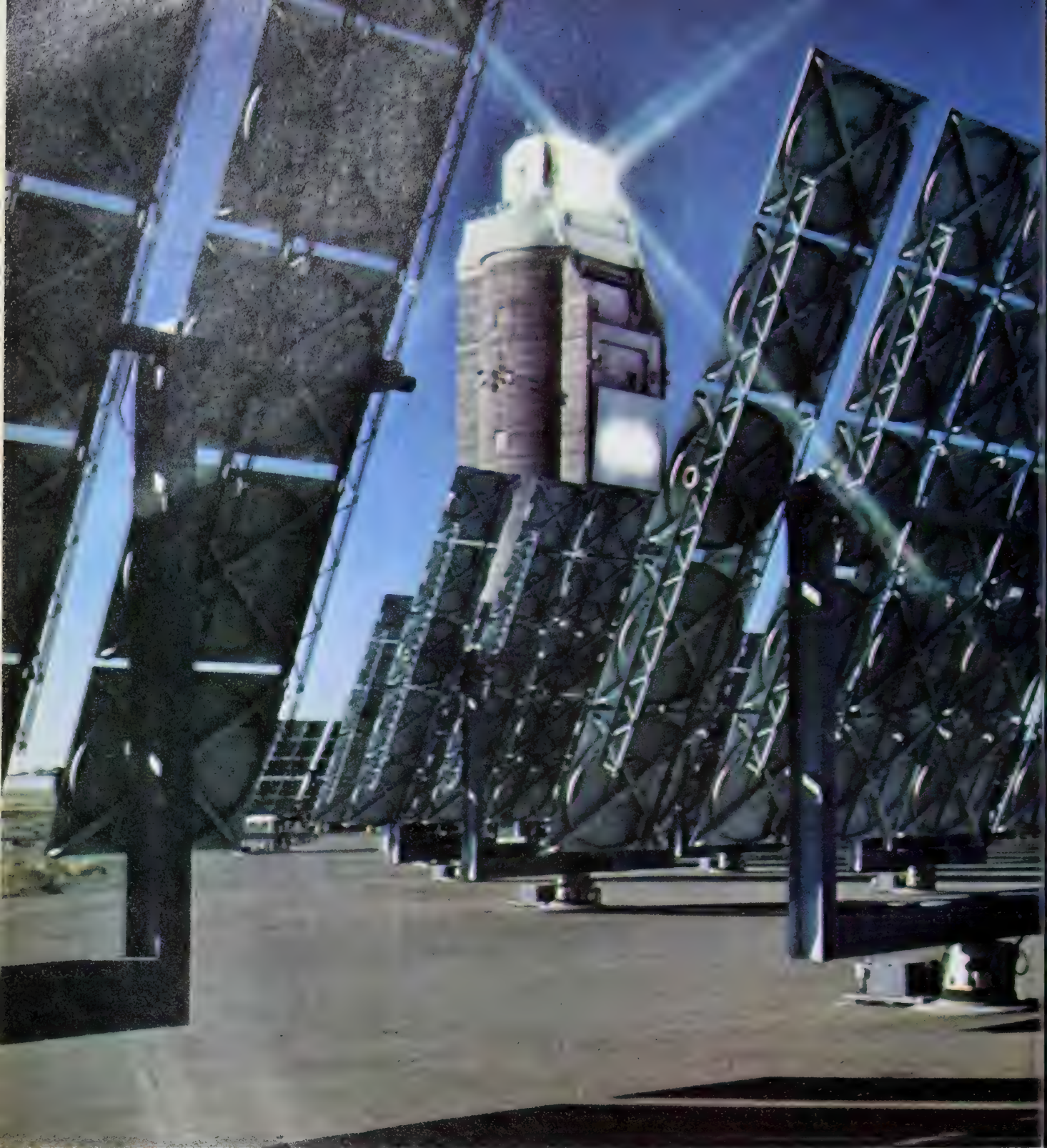
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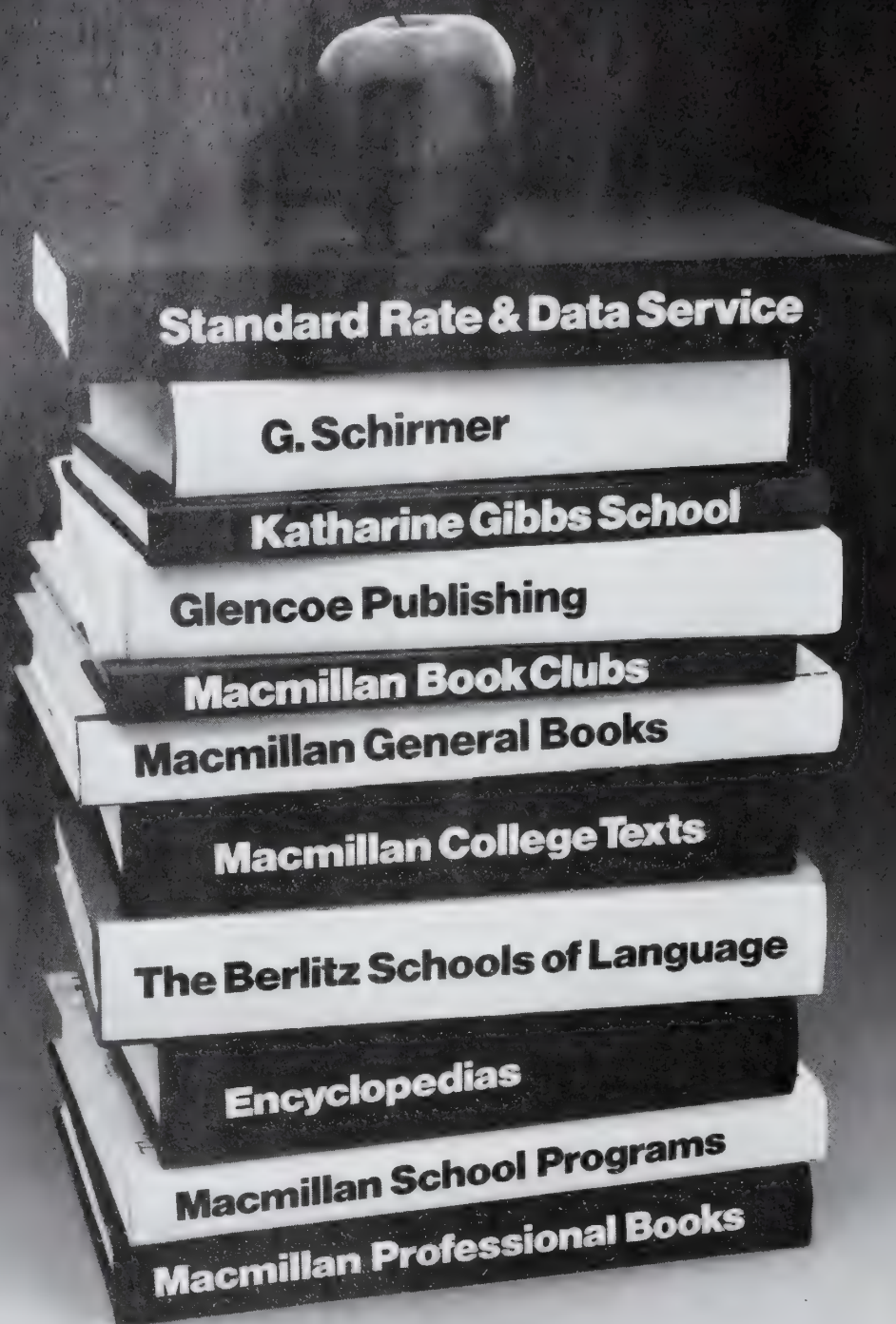
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That's why if you can pass the test here, you can go to the head of the class anywhere.

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NEW YORK CITY

commodate, within the city limits, clerical and data processing jobs. It is deeply involved in an 82-acre project in the northeast Bronx and is developing, with the Port Authority of New York and New Jersey, a telecommunications link in its Staten Island Industrial Park that will be particularly attractive to financial firms located in Downtown Manhattan. The City is also working with Lazard Realty, Inc., to develop a million-square-foot site in Long Island City, which would literally be minutes from Midtown Manhattan.

The City provides incentives and assistance for businesses wishing to locate or expand. Their primary needs are: sites, financing, a trained work force and an efficient distribution system. The Deputy Mayor for Economic Policy and Development has responsibility for putting the pieces in place. The Office for Economic Development, under Commissioner Kandel, administers the City's own programs and serves as liaison with those outside City government. OED's principal divisions have direct responsibilities for tax incentives, low-interest financing, retention, relocation and other programs and services. OED coordinates the City's programs with those of quasi-public agencies or entities that receive part of their funding from the City. In addition, it interacts with State and Federal programs.

The development arm of the City is the Public Development Corporation. PDC's Chairman is James R. Brigham, former City Budget Director. Its President is Philip E. Aarons. PDC has responsibility for managing the City's seven industrial parks. It can also buy or lease City-owned property for conveyance, without public bidding.

PDC is actively promoting manufacturing development. In the South Bronx's Bathgate Industrial Park PDC constructed a speculative building, the first of its kind in New York City. Two companies are now tenants: Aircraft applies a move-in from New Jersey, and Majestic Shapes, a garment manufacturer displaced from Midtown Manhattan by the conversion of loft space to residential use.

Three more industrial buildings will be constructed in Bathgate, in conjunction with the industrial development program of the Port Authority, an effort that seeks to retain and attract manu-

facturing in the urban centers of the New York Metropolitan Area. As part of this activity the Port Authority has a companion project with the City on 60 acres in Staten Island.

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NEW YORK CITY

PDC also seeks out tenants for In-Place Industrial Parks. These are sections of the City which, although not officially designated industrial parks, contain a number of existing industrial facilities. The neighborhoods generally reflect a mix of private and City property, have transportation and infrastructure "in-place," and have past histories of successful industrial activity.



STEVEN SPINOLA, Vice President of Public Development Corporation, and ROBERT A. KANDEL, Commissioner of Office for Economic Development, with model of 42nd Street Redevelopment Project.

PDC brings modern industrial park management techniques to these areas. Infrastructure is upgraded, and programs are instituted to strengthen security, maintenance and sanitation.

PDC's Commercial Division is currently working to implement the City's outer-borough back-office program. In addition, PDC acts as project manager for major developments. For instance, it is coordinating the South Street Seaport Project, a \$225-million showpiece for Lower Manhattan. PDC is also spearheading the \$1.3-billion plan for upgrad-

ing the Times Square Area.

The City offers a number of ways in which projects can obtain financing. The Economic Capital Corporation acts as an investment banker for small and medium-sized businesses. ECC helps leverage private investment through two sources of public funds: the Federal Government's Urban Development Action Grants (UDAG's) and the City's Revolving Loan Fund. From the program's beginning, in 1977, through April 30, 1982, the Federal Government has approved over \$84 million in UDAG's for New York City, the largest amount awarded to any U.S. city.

The City's Revolving Loan Fund complements private sector financing with Federal dollars. Between April 1979 and April 1982 the Revolving Loan Fund approved loans totaling \$14 million. As a result, over 6,000 jobs were created or retained in New York City.

The Industrial Development Agency, a non-profit public benefit corporation, has the ability to issue tax-exempt industrial revenue bonds, which the applicant in turn sells to investors. From its first closing in 1976 through the end of 1982, IDA has sold \$270 million in bonds,



ARNOLD L. KERNER, President of Kerner Printing Company. Industrial Development Agency bonds helped him and six co-tenants buy building in which they were located and create New York City's first industrial condominium.

which have assisted 185 projects, created 10,000 new jobs and retained 19,000 others.

The City's Industrial and Commercial Incentive Board offers partial tax exemptions for projects that create or retain jobs. Exemptions range from five-year 50% phased exemptions for eligible commercial projects to 19-year, 95% "as-of-right" exemptions for industrial projects. Deputy Mayor Gerard points out that, although the largest dollar exemptions have gone to large office and hotel developments, more than three-fourth of the projects that have received assistance are outside Manhattan.

New York City is becoming increasingly competitive in its wage scale and making substantial progress in matching available workers to jobs that actually exist. A principal vehicle in the job training effort is the Private Industry Council. A Federally funded program, PIC works with the City and private employers to design programs specifically tailored to the employer's current needs. It then supervises the training and eventual placement of applicants.

There has been a marked improvement in the achievement of students in the New York City school system. In 1981, for the first time in 12 years, children in Grades 2-9 surpassed the national average in standardized reading tests. Additionally, in 1981 the mean scores of City High School students on Scholastic Aptitude Tests showed a significant increase over the previous year. It was the first time since 1972 that an increase of this magnitude had been registered. Finally, in 1982, 11 of the 4 nationwide finalists in the Westinghouse Science Talent Search were from New York City schools, including the students that placed first, third, eighth and ninth.

The City's school system is placing high priority on its High School Vocational and Occupational Education Program. There are currently 130,000 students in this effort, learning skills which have been built into the curriculum as a result of input provided by PIC and private sector consultants. According to a 1982 survey by the Board of Education,

New York, Rolex and Winning

We at Rolex have crafted a corporate image based on our association with winners. Over the years our ads have featured men and women throughout the world who have, in their achievements, risen above the norm.

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We intend to stay in this city, and grow with it.

And we intend to contribute to its continued winning ways. Because we know that loving New York isn't always enough.



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NEW YORK CITY

95% of 1980 graduates of the Vocational and Occupational Program were either employed or continuing their education.

One of the City's attractions for business is its location at the center of the largest consumer market in America: 7 million potential customers in the five boroughs alone, 60 million within a 500-mile radius.

The City's transportation and distribution system is without parallel. The Port of New York handles over \$45 billion of waterborne and \$60 billion of airborne cargo a year. It leads all U.S. ports in both these activities. The City, together with the State and the Port Authority, is taking steps to make sure that these and other transportation facilities meet the needs of business in the 1980's and 1990's.

In 1981, for instance, the City's most

modern container terminal, a \$24-million project, opened on the Brooklyn waterfront. The Port Authority is, furthermore, undertaking a major expansion of cargo facilities at JFK Airport, which today handles over 40% of all foreign air cargo in the U.S.

The Port Authority is also working with the City to develop the Howland Hook Marine Terminal into a Foreign Trade Zone. This will become New York City's second Foreign Trade Zone. The other, which opened in 1936 as the first in the U.S., is currently located in the Brooklyn Navy Yard. Businesses in a Foreign Trade Zone may import materials without duty prior to assembling and marketing them. Only when the finished product is actually shipped for sale does it become subject to the imposition of these duty charges.

To provide goods for its extensive consumer market the City is working actively to expand its manufacturing base. The Business Marketing Department of the New York Chamber of Commerce and Industry has, in conjunction with the Port Authority and the State Department of Commerce, identified four target industries, of an international nature, for which a New York City location would be attractive. A trade mission led by David Rockefeller, former Mayor John Lindsay, and Deputy Mayor Gerard, visited England and Germany May 1982 to meet with representatives of firms in these and other industries. More than 300 firms attended the mission's seminars, and a substantial number began serious discussions about locating in New York City. The international interest in a New York manufacturing location appears real and could be a significant force in strengthening the City's private sector.

Just as the appointment of a Deputy Mayor for Economic Policy and Development has created a single focal point for business contact with the City government, so the New York City Partnership has attempted to centralize private sector activities. The Partnership, which was founded in 1979 and has as its Chairman David Rockefeller, former Chairman of the Board of Chase Manhattan Bank, combines the 200-year-old New York Chamber of Commerce and Industry, the widely respected Economic Development Council, a research and service agency, and several other business organizations.

More than 100 business and civic leaders comprise the association's membership. All are convinced that the expertise and experience of the organized private sector can improve the economic and social climate in America's preeminent city.

"This collaboration helped restore much of New York's vitality," Mr. Rockefeller said. "It also persuaded commercial and civic leaders that a permanent voluntary partnership could benefit the City even after the crisis had eased. The Partnership makes it possible for the

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But ultimately—and sooner than most believe—we think interest rates will drop.

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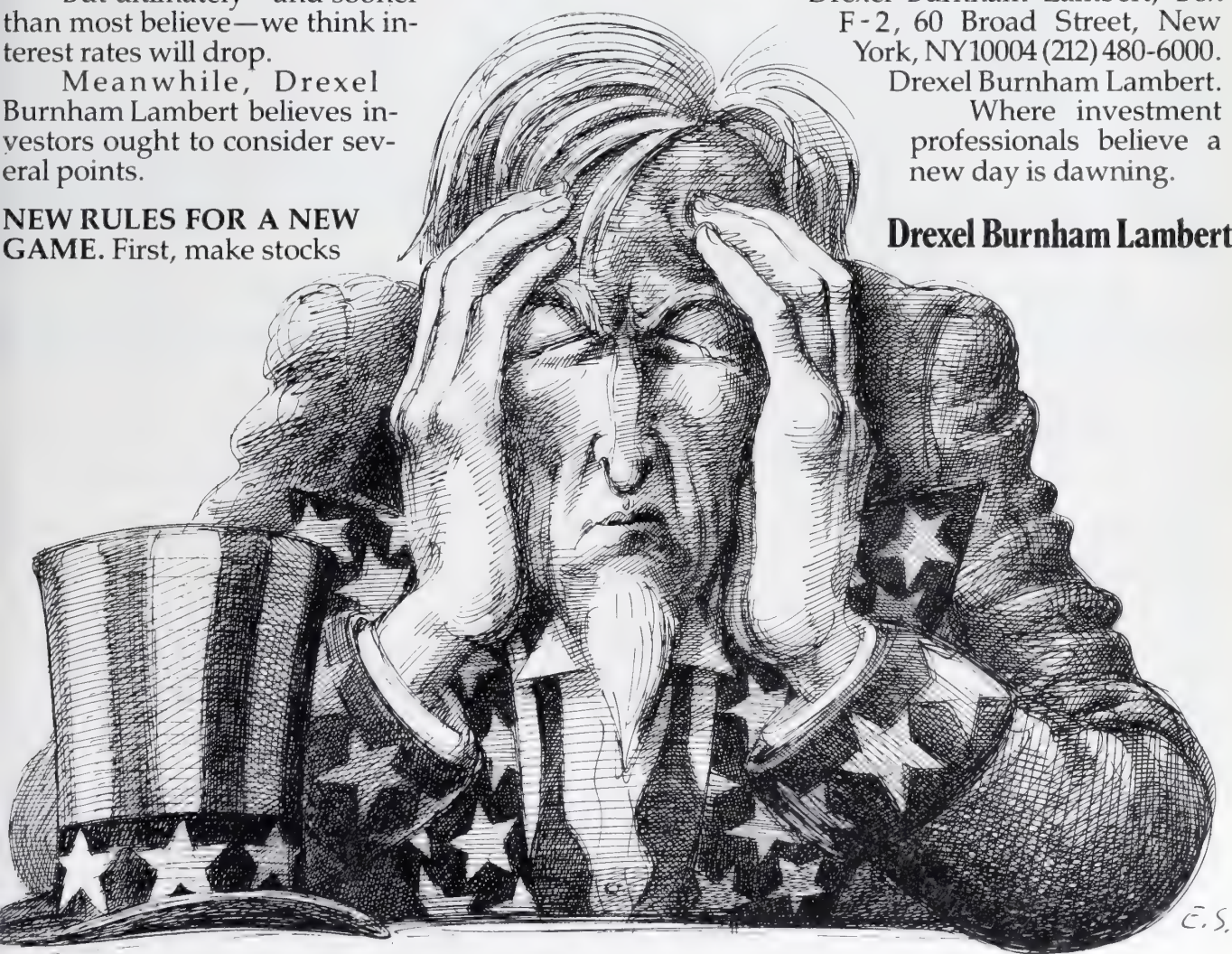
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IT'S A
HANGOVER.**



NEW YORK CITY

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Partial tax exemption for job-creative new construction, expansion or renovation of industrial and commercial properties.	ICIB (Industrial & Commercial Incentive Board) 566-020
Tax credits for projects that create new jobs.	JIB (Job Incentive Bureau—New York State)* 949-930
Tax exempt financing, combined with tax abatements, for new construction or expansion of industrial and commercial projects. Generally limited to major developments.	UDC (Urban Development Corporation— New York State)* 930-900

FINANCING

Second mortgage loans to finance new industrial construction, to renovate and expand existing facilities, or to purchase machinery and equipment.	JDA (Job Development Authority— New York State)* 578-415
Financing for industrial and, in certain instances, commercial projects through sale of tax-exempt industrial revenue bonds.	IDA (Industrial Development Agency) 267-960
Second mortgage loans to finance acquisition of land and buildings, construction, renovation, or purchase of machinery and equipment, using federal urban development action grants and City's revolving loan fund.	ECC (Economic Capital Corporation) 566-135
Loans, loan guarantees and technical assistance to firms impacted by imports that wish to engage in new construction or expansion.	TAAC (Trade Adjustment Assistance Center) 964-12

DEVELOPMENT

Managing City's seven industrial parks. Buying or leasing industrial or commercial property for conveyance, at fair market value, without public bidding. Coordinating public/private projects. Providing technical assistance to developers.	PDC (Public Development Corporation) 566-305
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SERVICES FOR BUSINESS

Attraction—Retention**—Expansion Help for companies interested in moving to, expanding or remaining in New York City. Assistance in finding sites, identifying and utilizing incentive programs. **Firms with 150-plus employees	BMD (Business Marketing Department of N.Y. Chamber of Commerce & Industry) 561-214
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RETENTION**

Assistance in retaining current, or obtaining new or expanded space. Special help for businesses displaced by loft conversion. **Firms with 150-and-under employees	DBS (Division of Business Services) 233-21
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PROCUREMENT

Help for businesses in obtaining government contracts and sub-contracting opportunities from private corporations.	Procurement Outreach Program 566-125
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MOVIE/TV PRODUCTION

Expediting permits, providing liaison with unions, finding production facilities.	Mayor's Office of Film, Theatre & Broadcasting 489-67
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NEW YORK CITY

City's business community to act in concert, in addressing proposed legislation, in mobilizing the private sector to deal with such problems as youth unemployment or public safety, and in attracting and retaining business for our City. In a community as diverse as New York it is difficult to speak with a single voice. I believe the Partnership represents a major step toward that goal."

Diversity, as both Mr. Rockefeller and Mrs. Gerard point out, is probably the common denominator of New York's economy. Its development, and continued health and growth, depend on a multitude of factors. The decision of a major corporation like AT & T to build a headquarters building has an effect. So does the decision of Majestic Shapes to move its 145 employees to the South Bronx. The opening of a Free Banking Zone impacts on economic development. So does the construction of back-office space on Staten Island.

"There's so much happening," Deputy Mayor Gerard says, "that it's almost impossible to keep track of all of it. We can only try, and hope our multiplicity of programs will provide the extra push that private sector operations need to succeed."

Are the City's additional 167,000 private sector jobs mainly the result of natural forces? What effect did the City's array of programs have? Was there a meaningful interaction?

"We will never," Deputy Mayor Gerard concludes, "be able to answer those questions with any precision. We are convinced, however, that the public-private partnership is working, and that it is the driving force behind the economic renaissance of New York City."

WRITTEN & EDITED BY:

Kenneth A. Mills

PHOTOGRAPHY BY: Nancy Leff & Susan Gilbert

PHOTO EDITING BY: Nancy Leff

PHOTO OF MAYOR KOCH BY:

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Zenith Radio is losing a packet in the television industry. Why, then, doesn't it quit?

Method in the madness

By Maurice Barnfather

GLENVIEW, ILL.-BASED Zenith Radio Corp. makes one in five of all the televisions sold in the U.S., a close number two behind RCA with 21%, and ahead of Sears, Sony and GE with 6% to 7%. But it's losing its shirt. The price of a TV set is about the same as 15 years ago, while con-

sumer prices have tripled.

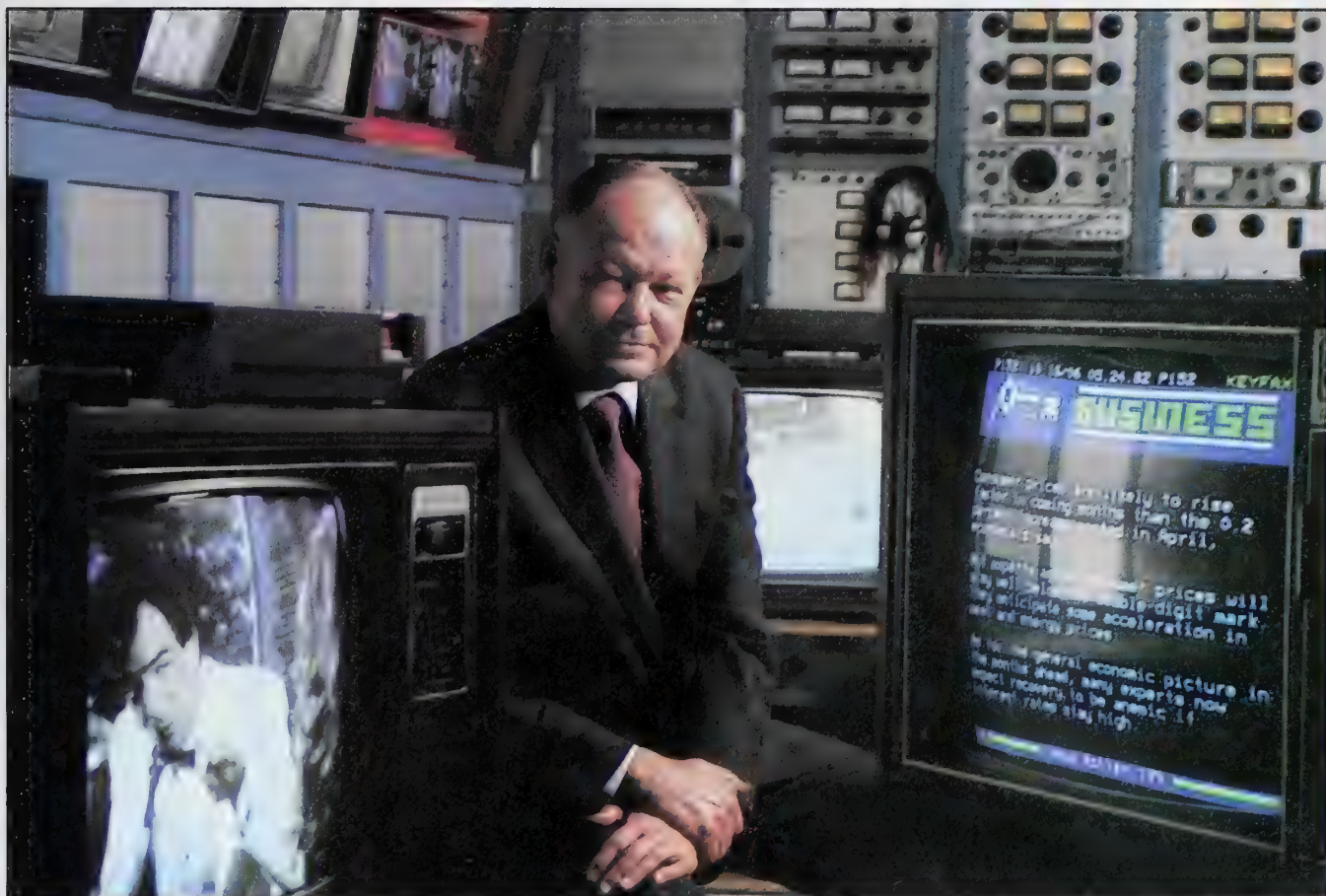
To maintain market share, Zenith has had to sacrifice profitability. Thanks to the non-TV-set lines (30% of sales), Zenith was marginally in the black last year (earning about \$16 million on sales of nearly \$1.3 billion), but red ink flowed in 1982's first quarter. A humiliating comedown for a company that once earned 20% or

more on shareholders' equity and 6% and more net on sales.

Hasn't Zenith taken enough punishment in this business? Apparently not. "Color television is always going to be our major product," insists Chairman Revone Kluckman. Zenith has tried to cut back costs to a level at which it can make money selling televisions. In 1977, for example, it shifted a large part of its components manufacturing to Mexico, slicing \$200 million a year off payroll costs. "We expect further substantial cost reductions in 1982," he adds, pointing to the consolidation of all color TV assembly into the Springfield, Mo. plant this year. "Now we're a low-cost, high-volume producer."

But isn't all this rather like rearranging deck chairs on the *Titanic*? Why not abandon ship altogether? The answer is that there is method to Kluckman's apparent madness. While TV sets may be a mature product, Kluckman sees them as the key to tomorrow's complex home entertainment and education center.

Zenith strategy counts heavily on Heath Co., the nation's leading maker of do-it-yourself electronics kits, which Zenith bought two years ago



Zenith Chairman Revone Kluckman

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from Schlumberger for \$64.5 million. Out of Heath—which still makes electronic kits—came Zenith Data Systems (sales up 60%, to \$71 million, in 1981). The acquisition was made to enter the small computer market, where sales grow 50% annually. A price tag of \$3,000 to \$10,000 puts it directly in competition with Apple, Tandy, Radio Shack and others. And now Zenith is even going up against IBM's small desk-top computer. But Zenith has a top-notch manufacturing and distribution system that gives it an edge over many of its rivals.

This was no haphazard acquisition. All home communications—telephone extensions, personal computers, home entertainment, the lot—will one day revolve around the television. Of that Kluckman is convinced. "My house is just about there now. I want to play games, my wife wants to watch TV and my son uses the home computer, and on and on. I've got so many things hooked up to my television set," he says. "It'll happen everywhere, and when it does we're ready," he predicts, recalling last year's introduction of Zenith's Advanced Space Phone, which allows a TV viewer to place and receive telephone calls through the TV receiver. As the number is dialed, it appears on the screen. A gimmick? "Certainly not," snaps Kluckman, fingering sales figures showing that remote control consoles with the Advanced Space Phone feature grew 37% last year.

But he's not holding his breath while all the bells and whistles are tacked on to the TV. He sees Zenith's traditional business boosting Zenith Data System's computer business. For example, Zenith Radio's expertise in video design and manufacturing produced a highly successful monochrome video monitor and color displays for computers for use with microcomputer systems in 1981. And Zenith is experienced in marketing easy-to-use electronic products.

"Don't forget," Kluckman adds, "computer terminals all have a picture tube." There's more. "We make switch-mode power supplies used in the computer business. These are computer-related businesses that Zenith Data Systems uses."

He insists none of this would be possible if Zenith gave up on television. Nor would its decisive move into cable TV, subscription TV and videotex (or teletext, the transmission of text and graphics) have really worked without Zenith's continuing to develop the television set. He smiles, recalling that 13 million homes—about 17% of total TV households—sub-

scribed to pay cable and over-the-air subscription TV last year.

Since 1980 Zenith has been a leading supplier of the little decoder boxes that sit on top of your subscription TV set. Now it has gone further. There is Z-Tac (Zenith Tiered Addressable Converter), a cable converter that can be put to two-way use. Addressables can be controlled at the source of the signal. So if you want another channel, there's no need for a technician to come to your home.

The first 54-channel Z-Tac system operates in five Minneapolis suburbs. Milwaukee is next. New Z-Tac sys-

tems, some with 120-channel capability, have been ordered for 25 other U.S. cities and towns during 1982. Zenith shipped its first addressable converters for cable television last November, and 350,000 sales this year look possible, or about 17½% of a likely 2-million-unit industry in 1982. That's another potential \$52.5 million in revenues for Zenith.

So far, so good. But it remains for Zenith to return to profitability, for without better profits Zenith will lack the wherewithal to remain in the new products game against fast-footed Japanese competition. ■

For nearly 20 years Scott Paper has been losing ground. Can a new CEO and a new controlling shareholder reverse the slide?

Too little, too late?

By Jean A. Briggs

PHILIP LIPPINCOTT, 46, remembers what Scott Paper was like in 1959, when he joined the company fresh out of Dartmouth College and the Army: "Scott was the Cadillac of the industry back then," he says. With a virtual monopoly in toilet paper, Scott's pretax margins were 16%.

But that was yesterday. When Lippincott took over as chief executive in February, Scott Paper's pretax margins had dropped to 7%. The company returned only 10.6% on stockholders' equity and ranked 22nd out of 23 in profitability among forest products industry leaders over the past five years (FORBES, Jan. 4).

Lippincott is implementing a five-point plan to turn Scott around. But even he concedes it will not be easy.

Scott's troubles began in 1965 when Procter & Gamble introduced Bounty paper towels. The trouble intensified two years later, when Procter & Gamble launched a shrewd, well-conceived frontal assault on Scott's main product line with its Charmin bathroom tissue. Charmin, a product of

new technology, yielded softer tissue and commanded a premium price. The assault called for a bold counter-attack on Scott's part. Alas. Throughout the Seventies, Scott was run by Charles Dickey Jr., a reclusive man one former executive characterizes as "risk-averse." An industry analyst says, more bluntly, that Dickey had trouble making decisions.

In the mid-to-late Seventies Scott was outflanked again by generic (no label) products manufacturers, such as Georgia-Pacific, which launched a determined attack on the low end of the toilet paper market. Georgia-Pacific's assault was reinforced by the acquisition in 1979 of Hudson Pulp & Paper, an East Coast producer of low-priced paper products.

And here was Scott, 3.3 million acres of presumably valuable timber, a great consumer name and plenty of capital, its stock selling at a fraction of probable breakup value. A sitting duck for acquirers. Along came Brascan Ltd., the Canadian investment company controlled by Edward and Peter Bronfman, which had already accumulated 13% of the stock.

Dickey cut a deal with Brascan. The Canadian outfit would buy another 7.4%, but its new shares would be previously unissued treasury shares rather than stock already in investors' hands. Public stockholders woke up to find their positions diluted and their hopes of being taken out at a profit dashed. Scott's share price tumbled six points, from 27 to 21, in a matter of days after the deal was announced. It now hovers around 14. A weak man when it came to business decisions, Dickey was a tiger when what he saw as the company's independence was threatened.

Dickey found himself with another \$100 million, four new Brascan directors with considerable incentive to see performance improve and a horde of angry stockholders.

Enter Phil Lippincott and his five-point plan. One former Scott executive thinks Lippincott, a marketing man with a consumer goods background, is just what the doctor ordered; the executive says he bought back into the stock just because Lippincott got the nod as CEO. Weighing against Lippincott, however, is the fact that he has been involved with Scott's previous ill-starred attempts to regain its old status.

But that doesn't mean Lippincott's plan won't succeed. His first thrust is into the lower-priced end of the consumer market in paper towels, napkins and facial tissues, as well as toilet paper—an assault on less-formidable Georgia-Pacific. He's also fielding a premium-priced paper towel line backed by expensive new technology.

Then, there's a push into commercial papers like washroom towels and food-service napkins—a market dominated by Fort Howard Paper, which has long been the low-cost producer (FORBES, June 12, 1978).

Lippincott has also singled out an opportunity in the magazine-type coated-paper market—the heavier number three and four stock that annual reports use. Finally, he wants a redoubled effort overseas, where competition looks less formidable.

All this will cost a great deal of money, even for \$2.3 billion (sales) Scott. The company's long-neglected plant and equipment needs \$1.6 billion to make it a low-cost producer. With profits low, only about half the money can be generated internally. Borrowing the other half at today's



Scott Paper CEO Phil Lippincott and Larry Shane
"We need to do more."

rates could make the cost prohibitive.

Financial Vice President J. Lawrence Shane has tried several innovative techniques to get the money. He raised \$7 million by leasing Scott equipment to two banks in England in a kind of two-country tax shelter.

"We need to do more, to find additional sources of volume and profit to meet our goals." In short, you can't repair 20 years' worth of neglect in 1 or 2 years. The real question here seems to be: Why did Scott's board let things slip so far? ■

No news is good news in banking these days. With fewer lending surprises, Citicorp has been keeping out of the headlines.

Summer in the Citi

By Eamonn Fingleton

CHASE IS LICKING its wounds from the Drysdale Government Securities debacle; Continental Illinois' tally of problem loans has doubled, to a high 2.4% of assets, in six months; BankAmerica is digging itself out from under the California real estate collapse.

In all this, Citicorp, which rivals BankAmerica as the nation's biggest bank, has looked pretty good. For its size (assets of more than \$120 billion), its exposure to disasters like Braniff and International Harvester was modest. According to broker Keefe, Bruyette & Woods, Citicorp's share of Braniff's \$733 million debt is only \$29 million. By contrast Bankers Trust, a

much smaller bank, is caught for \$38 million.

In foreign-country lendings (over 60% of the bank's commercial loans), Citicorp's exposure to shaky East-bloc nations is relatively low, and about half of its loans to developing countries elsewhere are shrewdly written in local currencies.

Citicorp's recent reputation for relatively conservative lending is one reason that its stock is suddenly a favorite among banking analysts, who are expecting it to produce one of the biggest profit increases in the industry this year. According to the Institutional Brokers Estimate System of Lynch, Jones & Ryan, a service that tracks analysts' earnings forecasts, Wall Street now looks for earnings of

\$5.28 for the year—an increase of nearly 26%. In the latest month alone, analysts have upgraded their forecast for this year by nearly 30 cents following an excellent quarter with earnings up from 78 cents to \$1.55 a share.

In a period of widespread bankruptcies and near-bankruptcies, Citi's high-quality loan portfolio has stood it in good stead. Dean Witter found that loans that Citicorp has classified as nonperforming actually produced an average cash yield of 8.4%, the best for any money center bank and more than five times the figure at Chemical Bank. That indicates Citi is faster to identify doubtful loans—and, by reserving well in advance, limits the hit later.

An insider says: "Citi is better than most at spotting bad credit risks at the outset. The fact that it was not caught by Drysdale Government was not just luck—Citi turned Drysdale down."

The latest earnings comparison has been helped by a rebound from a depressed quarter a year ago, when Citi was unwinding an ill-starred bond market gamble on lower interest rates.

But the most satisfying aspect of the improvement is in Citi's big consumer lending business. Its credit card operation, long considered an albatross, has recently turned profitable. Analysts reckon that Citicorp's Visa and MasterCard divisions alone lost more than \$40 million last year. This year they could make between \$5 million and \$10 million. Chairman Walter Wriston launched a big expansion of credit cards in 1977 and immediately ran into a blizzard of bad debts.

Then the cost of money went through the roof. Trapped by New York usury laws, Citi found its customers were helping themselves to credit at rates as low as 12% while it was paying 14% and more for the money. The usury laws cost Citi an estimated \$215 million in 1980.

Wriston's response in 1980 was to switch credit card operations to South Dakota, which has no usury laws. The fruits of that move are only just coming through in profits as cheap-rate borrowers gradually clear their debts. Ironically New York has now scrapped its usury laws, but Citi officials maintain they would probably have gone to South Dakota anyhow. Says one: "Rents are a fraction of what we would pay in New York, telephone bills are lower because we are nearer the West Coast market, and we have a more enthusiastic work force."

Even international lending, long considered a problem area for Citi, is

healthier. "Margins have improved enormously in the last year," says Lawrence Cohn of Dean Witter. "Banks generally are becoming much tougher with second-tier borrowers. Mexico now has to pay 1% above the London Interbank Offered Rate, whereas a year ago it paid only 0.5%. Competition to lend is drying up. The German banks are under pressure and the French banks are much less aggressive since they were nationalized."

On the retail front Citi's big move into ATMs (automatic teller machines) in its New York home market

is also beginning to pay off. One of the earliest in the field, Citi has more than 440 machines in place. That helps explain why Citi's market share of deposits has risen from 4.5% to 5.5% and is still improving.

Despite the good news and enthusiastic touting by a chorus of banking analysts, Citicorp stock stubbornly refuses to fly. At \$26 recently, it stands at less than 5 times this year's earnings and at a discount of more than 30% to net worth. It seems that other people's troubles are rubbing off on Citicorp. ■

Marriott Corp. has come up with an ingenious financing scheme to keep it growing 20% a year right through the recession.

Full speed ahead

By Jane Carmichael

AMID A CLUTTER of memorabilia in a glass case outside his Bethesda, Md. office, J. Willard Marriott Jr. keeps a bottle of 1865 Clos Vougeot burgundy. The rare vintage is a gift from architect-developer John Portman, whose Times Square hotel will be managed by Marriott Corp. when it is completed.

A bottle of wine in a teetotaling Mormon's office? A Marriott hotel close to porno bookstores and thug-ridden Times Square? Those are not the only surprises these days at Marriott, which earned \$86 million on \$2 billion sales last year. Ignoring the recession and frighteningly high interest rates, CEO Bill Marriott, 50, is expanding all three of his main businesses—hotels, restaurants and airline catering. He plans to add 30,000 rooms to his chain in the next three years, nearly doubling it in size. In March he acquired Gino's, a fast-food chain, for \$48 million cash, then turned around and bought Host International, the leading airport-restaurant operator, for \$115 million.

What does Bill Marriott think he's

doing? "We're trying to take a long-term view of the business," he replies blandly. He points to the Gino's purchase to show what he means. A recent study of Marriott's Roy Rogers fast-food chain showed that it couldn't afford to go burger-to-burger in advertising against McDonald's and Burger King unless it had at least 15% of its major markets (Baltimore, Washington, D.C., Philadelphia and northern New Jersey). Now some 180 of the best Gino's in those markets will be converted into Roy Rogers—ready-made gains in market share. The remaining 271 restaurants will be sold. KFC Corp. has agreed to buy 69 of them for \$16 million, and Bill Marriott says he has nibbles from 18 or 20 potential buyers for the rest. Says he, "We figure it will end up costing us \$20,000 a unit less to convert the Gino's to Roy Rogers than it would have cost to build new ones."

Okay, but why on earth is Marriott expanding his airline business just when airlines are cutting back meal service? Already the biggest airline caterer in the world, Marriott's acquisition of Host International makes it the biggest airport restaurant operator

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Bell System

Meeting Japan's Challenge

Ninth in a Series

HAS JAPANESE INNOVATION REPLACED GOOD OLD YANKEE INGENUITY?

Not yet. But Japan could close the gap if Americans don't try harder.

The fact is, the Japanese are graduating more engineers; they're doing more nationally-coordinated and funded engineering; and they're also upgrading their well-known ability to implement the designs of others with a quality accent.

Yet in high technology electronics, Americans are both the creators and leaders. And companies like Motorola intend to keep it that way.

For example, take the microprocessor—a tiny chip of silicon containing all the logic circuits of a computer. First invented by our U.S. competitor, Intel, 4-bit microprocessors are the logic brains for calculators and appliance controls. More complex 8-bit microprocessors are used in applications like electronic games, or to improve fuel economy and reduce pollution in automobiles, to mention a few.

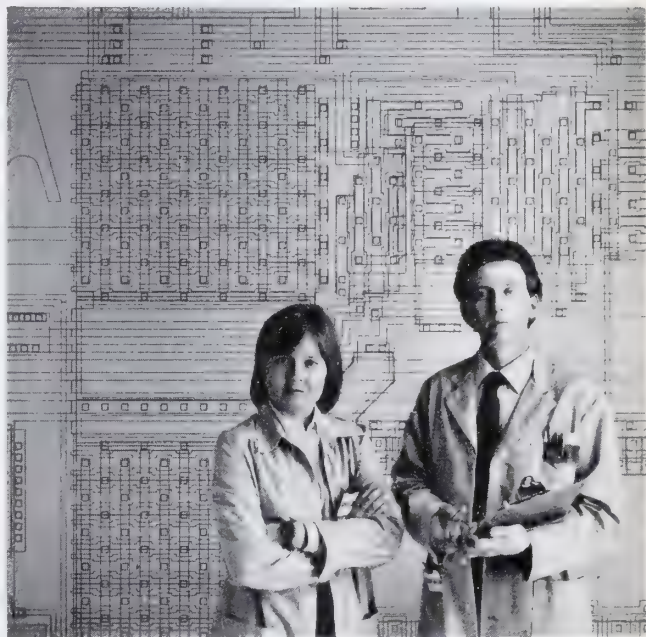
Most of these microprocessors and their computers were created by Americans.

Now the American semiconductor industry has given birth to the 16-bit microprocessor—a whole new generation that's up to ten times more complex and powerful than its predecessors. In fact, a 16-bit microprocessor has the capability of controlling an astounding 128,000,000 pieces of information.

These 16-bit microprocessors were developed and introduced by American manufacturers. Motorola's own version—MC68000—is widely acknowledged to have the most versatile computer architectural structure. You'll find it in new kinds of products never before economically practical: machines and instruments that talk, listen and respond; automatic production equipment that manufactures with higher precision and greater productivity; small home computers as powerful as large business computers built only five years ago.

And as innovative as these products are, new generations of microprocessors continue to open the realms of what's possible. For instance, we have announced a 32-bit version of the MC68000 that is the world's first fully upwardly compatible version of an earlier 16-bit sister machine. But that is not the point.

The point is that innovation and imagination in this field, as in others, is American. It is from this solid innovation base that we must meet Japan's challenge. As competition for world markets becomes more intense, it's this good old Yankee ingenuity that will keep us out front.



A single engineering drawing for the MC68000 covers an entire wall. Yet the actual microprocessor is only about 1/4 inch square.



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as well. Says Marriott, "If we don't get them on the plane, we'll get them in the airport." Besides, he goes on, "If your flight is delayed by two hours because of the air traffic controllers' strike, you're a lot more likely to stop for a drink or something to eat than if it's on time." So, in this view, the Host acquisition is a way of defending a lackluster airline catering business as well as an investment in tomorrow's air travel.

As for hotels, Marriott's occupancy level, bolstered by conventions and meetings, has long been the best of any major chain—79% last year, against 67% for Hilton and 63% for the industry. Marriott is convinced that the tight money of today will mean a shortage of rooms tomorrow, including the airport and suburban markets where Marriott is strong.

The question remains: Where's the money coming from? Marriott estimates that his hotel expansion will cost \$2.5 billion. Marriott is already leveraged 1.4-to-1, with much of its debt at floating rates, including the \$200 million it borrowed for the acquisitions this year. Hilton, in contrast, is leveraged 0.4-to-1.

The answer to the question "Where's the money coming from?" is simple. Marriott plans on using other people's money—letting outside investors own the bricks and mortar and potted palms while Marriott runs the operation. By selling off hotels but continuing to run them, it has in the past five years more than doubled its number of managed-only rooms, which helps explain its 30% five-year compound earnings-per-share growth. And Bill Marriott wants to own only 10% to 15% of his new rooms, down from the present 25%.

Aren't high interest rates and a slumping real estate market drying up institutional money for such ventures? Yes, but Marriott has come up with an ingenious plan. Instead of selling hotels to Equitable, for example, he is selling them to the public as a tax shelter through his new Potomac Hotel Limited Partnership. Says Marriott, "Most insurance companies couldn't use the tax benefits anyway, because their real estate is in [nontaxable] pension accounts. This deal puts a value on the tax benefits, as it should."

Here's how it works: Eleven new hotels will be finished in 1983 and 1984. Marriott will get almost all the tax benefits during the construction phase—saving Marriott \$35 million in federal income taxes. After that, it will have those 11 new hotels to manage—about 10% of its total rooms—at



Marriott CEO Bill Marriott
Find a way to do it.

fees "substantially" higher than usual, and without having added a penny of debt to its balance sheet. And if the hotels are later sold (when the market revives, for example), Marriott retains most of the appreciation. A much better deal than it could hope to get from an insurance company.

The investors will put up \$18 mil-

lion in units of \$10,000 each. The tax shelter has arranged to leverage its equity with borrowings of 20-to-1—partly guaranteed by Marriott. According to Marriott's projections, each \$10,000 investment will generate \$87,000 in tax shelter over 15 years. While Marriott keeps most of the income from the rooms, the limited partners get the depreciation and the interest deductions on all that debt. Hence the very high tax shelter benefits—more than double those of the typical real estate shelter. That may attract the attention of the IRS. Still, says Bjorn Hanson of Laventhol & Horwath, an accounting and consulting firm that specializes in lodging, several other chains are already beating down his door asking for help in setting up similar deals.

Marriott has other financing ideas up his sleeve—European borrowing, public debt offerings, joint ventures. Says he, "Food and lodging is a big industry, and we want to be an industry leader—the industry leader." You have to hand it to Marriott. While others wring their hands in despair over the difficulties of operating in times like these, Bill Marriott just goes out and finds ways to do it. ■

George Powell blames politics for Yellow Freight's problems. But the real villain was management complacency.

"Our clairvoyance wasn't very hot"

By John A. Byrne

IT'S NOT ENOUGH TO BE just a good businessman these days; you need political savvy, too. Ask George Powell Jr. Powell and his father, a former Kansas City banker, hopped aboard bankrupt Yellow Freight in 1952 and steered the company onto the most profitable highway in the industry for most of the 1970s. For seven years straight, from a five-year average of 40.4% in 1973 to 26.1% in 1979, Yellow topped the trucking in-

dustry on FORBES' return-on-equity Yardsticks. The pair built the 75th-ranked company into the third-largest general freight carrier by shrewdly picking up assets of troubled truckers at fire-sale prices. Yellow became a Wall Street favorite; the Powells of Kansas City could do no wrong.

That is, until Powell misjudged the political climate in Washington. A cautious man, Powell was one of the last persons in the trucking industry to realize that Congress would pass the Motor Carrier Act of 1980, deregulating

lating the long-protected industry. "Our clairvoyance wasn't very hot," he now admits. "We could never see Ted Kennedy and the liberals believing in this free-market philosophy. We didn't realize there'd be a coalition of liberals and conservatives until we were counting up votes" only months before final passage. Powell underestimated the strength of Washington's free-market advocates and overestimated the lobbying power of the Teamsters.

The result? Yellow swerved off the road and plunged into a ditch. Powell was still paying for operating rights (exclusive rights to run certain routes) in the very year that deregulation would make them useless. After writing off \$34.8 million of these "rights"—more than any other carrier—Yellow skidded into the red in 1980 with a \$13.7 million loss, its first since the Powells acquired the company.

But the writeoffs were not an end to Yellow's problems. Powell laid off 20% of his work force in early 1981, after 1980 revenues dropped 10%. Last year the company broke into the black, but in the first quarter of this year, more red ink. A once orderly business had become chaotic and Yellow couldn't seem to cope. New competitors, often nonunion, bit off pieces of its big shipment business with lower rates. Moans Powell, "Suddenly, just like that, you're encouraged to do those things it had been illegal and immoral to do for 45 years. We were shocked when it happened."

Shocked and ill prepared. When smaller truckers began grabbing big customers, they began dropping service to smaller, less-than-truckload (LTL) shippers. That business was now available, but Yellow wasn't ready to serve it. Yellow's major competitors, Consolidated Freightways and Roadway Express, had been building decentralized nationwide hub-and-spoke networks to handle LTL traffic where competition was the least intense. Not so at Yellow.

Instead, Yellow was spending nearly \$60 million on a wholly owned oil and

gas exploration company it started in 1974 as a hedge against rising fuel costs. It was a major blunder. Overland Energy has never been profitable enough, and last year Yellow wrote down \$11.5 million on the business because its earlier estimates of proven reserves had been too optimistic. Powell says he now is phasing out the operation.

In a desperate attempt to regain lost market share, early last year Yellow resorted to heavy across-the-board

nounced a 20% cut on LTL shipments that it later withdrew after objections were filed with the ICC. Then, one major competitor, Spector Red Ball, went bankrupt, and another, TIME-DC, began selling off some assets.

Now Yellow is fighting back. It belatedly began to build a hub-and-spoke system to strengthen its position in the LTL market. In the past three years the company has upgraded 17 existing freight depots into larger centers where large cargoes could be broken down. It has opened another 100 terminals to give it a total network of about 370 satellites. This frantic upgrading cost \$63 million. This year Powell will complete the catch-up program by upgrading depots at Denver and St. Paul to full hubs, and by adding another 30 terminals at a cost of about \$17 million.

So Yellow is slowly coming back. It has rehired 8% of its laid-off staff, its aggressive discounting has finally allowed it to regain most of the market share it had lost and its expansion has so restructured the company that its major business is now in the LTL market. While Roadway's daily LTL tonnage in last year's fourth quarter fell 16%, forcing Roadway to begin offering general discounts in February, Yellow was scoring a 22% gain. In the first quarter Yellow continued to increase its LTL tonnage by 17%. LTL business now accounts for 61.4% of Yellow's tons hauled, from 46.5% in 1979. "They were caught behind when

the abrupt changes came," says Andras Petery, trucking analyst for Morgan Stanley, "but I believe they're going to turn that company around."

It won't be easy. Those years of complacency have taken their toll. Of the 15 to 20 larger firms offering LTL service, Powell thinks only about a third will survive. He's determined Yellow will be among them, but knows the fight is just starting. Says he: "Of course, if a major carrier like Con Freight or Roadway discounts further, we'd have to meet them. They could force us to borrow and stay at the poker table with them." ■



Chairman George Powell Jr. of Yellow Freight System, Inc.
"We were shocked when it happened."

discounting of between 3% and 20% for customers giving Yellow five or more small LTL (under 10,000 pounds) shipments at a time. That helped trigger a price war. Soon Yellow was forced to nearly double its discounts to remain competitive. Says Powell's second-in-command, President Donald McMorris: "There are discounts being dangled out there by so many companies, it's like impulse buying at the supermarket."

The savage price-cutting reached its peak in April. Los Angeles-based Transcon Lines, which reported a \$5 million loss in the first quarter, an-

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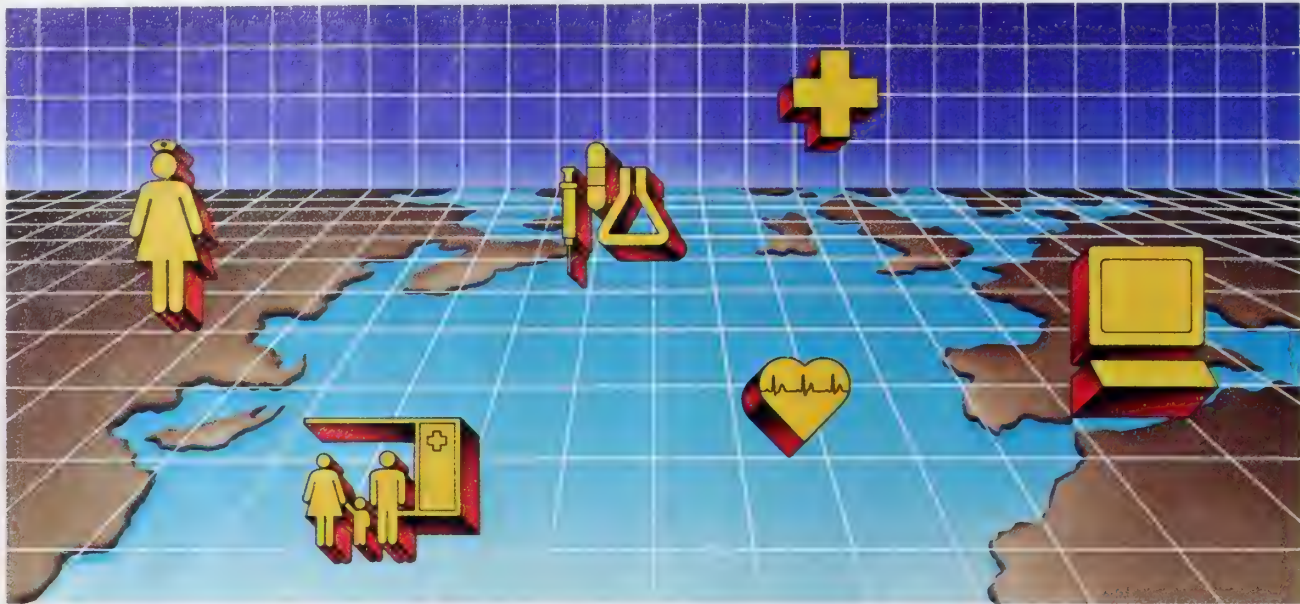
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Sure, these are hard times—but not for everyone. Some companies are doing surprisingly well despite the severe slump. What do the recession-beaters have that other companies do not?

Strong-arming the recession

By Thomas O'Donnell
with Steve Kichen

IT'S A ROUGH recession, but not universal. Look at the table on pages 103 and 106. Each of the 106 companies listed has managed year-to-year earnings gains of 9% or better for the past five quarters. On average their profits were up 30% over the past 12 months. That's impressive even in boom times.

What's the secret of these recession-beaters? To begin with, there is a sprinkling of high-tech innovators, like Tandem Computers and Wang Labs, and some movers in hot new markets, like Federal Express and Warner Communications. Then there are classic situations, where profits actually pick up as pockets get empty. Examples include such brewers as Anheuser-Busch, which makes Budweiser, and Philip Morris, which makes Miller. It's something called "trading down." People don't have enough money for whiskey so they buy beer. Philip Morris is also getting another boost from the recession: When people worry about the economy they smoke more.

But some consumers don't seem to be feeling the pinch at all. Steady sales of top-shelf labels like Brown-Forman's Jack Daniels and Canadian Mist helped put that company on the list. By the same token, the nation's army of joggers doesn't appear to have slowed its rush to buy high-priced running shoes. Earnings at footwear supplier Nike, Inc. are up 76% over

the past 12 months.

Other companies on the honor roll are in those industries that are often considered recession-proof—where demand doesn't react directly to the economy's ups and downs. The food industry meets this criterion perfectly. After all, people have to eat. Refuse also has to be disposed of, so



Browning-Ferris and Waste Management are doing well as a result. Health care is well represented on the list, too. In fact, it has been one of the country's fastest-growing industries in recent years. That situation should continue throughout the Eighties.

The majority of the 106, however, fail to fall into any neat category.

There are 14 banks, a few capital goods producers, a handful of utilities and even would-be conglomerates, like Rollins and W.R. Grace. In fact, only two generalizations seem to apply. The first is that many of these companies have been lucky. The second—and far more important—is that all of them have made the most of their opportunities. That's the reason why American Home Products, a prosaic baker like Campbell Taggart and a down-home retailer like Wal-Mart meet our criteria.

Good management, of course, isn't easy to quantify, as the three profiles that follow show. But quality seems to rise to the top during hard times. During the past several quarters, nearly all these recession-beaters labored valiantly to conserve cash. With volatile, double-digit interest rates, financing charges can make or break profit targets. Tucson Electric Power, for example, got funds for some long-term construction projects by selling \$300 million worth of 7¾% revenue bonds last fall and promptly invested most of the proceeds in high-yield money market obligations.

In addition to detailing past performance, our table also includes consensus earnings estimates for year-end 1982. The surprise here is that Wall Street's prognosticators think that most—but not all—of the companies on our list will continue positive earnings comparisons over the next three quarters. Rapidly dissolving backlogs are hitting some industries

especially hard. Gains at oil service companies, for example, will be considerably smaller in 1982 than last year. "Second- and third-quarter results will reflect current reality," predicts New York-based energy consultant David Pohndorf. In 1983 things could get even worse.

Banks, the largest industry group on our list, are also in for a squeeze. Typically, they do well in the early days of a downturn. "Then they get sick while their customers get better," says Morgan Stanley analyst Art Soter, who predicts the rate of earnings gains will slip later this year.

That brings home another point. Even a roster of recession-beaters has its dark side. The bad news is that most of these companies are in service-related businesses rather than manufacturing. In fact, not one representative of traditional smokestack America appears on the list. The fact that basic industry is performing so poorly at the moment is one reason that recoveries have been weak, recessions have been severe and economic growth has been so sluggish in recent years.

Since 1973, service companies—especially retail stores, restaurants, health-care providers and business information specialists—have accounted for more than 40% of all the nation's new jobs. According to MIT economist Emma Rothschild, such employment rose "almost 3 times as fast as total private employment, and 16 times as fast as employment in the goods-producing or industrial sector of the economy."

Try out these statistics at your next cocktail party: Total employment in the automobile and steel industries combined is less than the number of jobs created in restaurants and bars since 1973. Overall, the service sector employs nearly seven of every ten working Americans. And, most worrisome, it represents roughly two-thirds of the gross national product.

The problem with this is that service jobs have little multiplier effect elsewhere in the economy. A meal consumed is gone forever. A ton of steel is made into cars, buildings, bridges, refrigerators and heavy machinery. Similarly, professions that deal in paperwork—banking, accounting, law and finance—add little steam to the economy. And during recent years these careers have often attracted the brightest young talent and have filled many top management suites.

For years to come there will be arguments about whether the U.S.

should evolve gracefully into a service- and high-technology-based economy or whether—to use a bit of jargon—we must "reindustrialize." Without here getting into that argu-

ment, we profile three outstanding recession-beaters. Not every company can be as lucky as they were, but every company can learn something from them.

Walgreen

"Just doing what we do best"

The \$10 billion-a-year drug-chain business, like any other, has its stars. Jack Eckerd made headlines with last year's out-of-left-field acquisition of 151 video equipment stores, now losing money. Until recently, up-and-coming Rite Aid was a regular in the spotlight, with 20% annual sales and earnings growth. Working quietly behind the prescription counter, however, 81-year-old Walgreen Co. is making a new name for itself. Throughout this recession, the company, which earned \$42 million last year on revenues of \$1.7 billion, has averaged 14.6% earnings gains per quarter. That beats every big competitor.

Conventional wisdom, of course, says pharmacies are recession-proof. But look at the sad performance of Walgreen in 1970, Peoples Drug, Revco D.S., Rite Aid and Thrifty in 1974-75 and Pay 'N Save last year. "Drugstores are recession-resistant, not recession-proof," says an analyst at one mutual fund holding 290,000 Walgreen shares and still buying. "To beat a recession, you have to manage

the business, and these guys have done that very well, especially with their large midwestern exposure."

The success formula centers on market domination and avoidance of the hinterlands. So most new growth is coming within existing strong locations like Chicago, Houston and San Francisco. "We want to be either number one or two wherever we are," says 46-year-old Charles Walgreen III, the personable though press-shy chairman who succeeded his father in 1977. So far, so good: Walgreen is first or second in 28 of its 34 metropolitan areas.

That provides economies of scale. "When there are enough stores, we add radio or TV advertising," says Fred Canning, chief operating officer. Concentration gives distribution a boost, too. "Walgreen probably has the industry's most modern, sophisticated warehousing," says Dave Pinto, editor of *Chain Drug Review*. Robots, for example, handle less-than-case-load shipments at a rate of 900 items per hour, vs. the 110-per-hour limit of human hands. Good management has cut Walgreen distribution costs by



Walgreen Chairman Charles Walgreen III

Recession-resistant or not, you still have to manage the business.

32% in the last five years despite rising transportation costs.

Allowing store managers a say in what they put on their shelves—a departure from the industry's cookie-cutter norm—has kept Walgreen more closely in tune with its customers. "Someone in Chicago used to just push a button and lawn chairs would be sent to every Walgreen store in the nation," says Robert Bolger, president of the National Association of Chain Drug Stores. Now Revlon Ultima perfume, for example, may be in only 300 of Walgreen's 872 stores. Managers, who get sales and profitability bonuses, know what will or will not move in their locations.

These days recession is not the industry's only hard-to-swallow pill. There is increasing competition among chains as well as from super-market pharmacies. Then there are the vagaries of illness and weather. According to Phoenix-based Pharmaceutical Data Services, the number of prescriptions filled so far in 1982 is down 4%. "This was not a strong cough-and-cold season," explains PDS' Mike Smith, and bad weather kept customers home. Still, Walgreen has managed to fill 30% more prescriptions year-to-year in 1982.

That's ample evidence of the company's current vitality—a considerable change from the past. "Walgreen used to want a store in every state regardless of profitability," says Goldman, Sachs' Miriam Cutler. However, Walgreen, grandson of the chain's founder, and Fred Canning changed that practice. They learned from A&P's experience as jack-of-all-markets-but-master-of-none, and consolidated the store base. In 1980 Walgreen ended its private-label product sales to 1,800 independent druggists—a distribution headache that never made much money.

Walgreen today will try new ideas, but also cuts losses early. For example, the drug chain quickly uncoupled from a joint venture with Schnuck's Supermarkets. "The combination store was good for Schnuck's because drugs raised their low food margins, but it didn't help us at all," says Walgreen. Now, however, he is experimenting with several small convenience food departments with relatively high margins.

Walgreen's success in troubled times is really not that complicated. "We're just doing what we do best, running drugstores, and we're going to stay right where we are," says Charles Walgreen. Take note, those who think costly diversification can solve basic problems.—Jeff Blyskal

Browning-Ferris Cleaning up



Harry Phillips, chairman of Houston-based Browning-Ferris Industries
Scraping even more pennies from those ubiquitous blue trash bins.

The nature of the beast, admits Chairman Harry Phillips of Browning-Ferris Industries, has a lot to do with his company's health. "We can't take all the credit by a long shot," he says. "We happen to provide an essential service."

What he means is that his customers can't hoard their rubbish until the recession goes away. Browning-Ferris hauls away the garbage—as innocuous as a subdivision's table scraps or as poisonous as chemical wastes—for 260,000 customers worldwide. Business has been good: Earnings rose 41%, to \$48.5 million, on revenues of \$661 million at its Sept. 30 year-end, and earnings in the first half of fiscal 1982 are up 35%, to \$28.7 million, on a revenue gain of only 11%.

Why? Phillips, 52, is Mr. Efficiency. The chairman of the American Productivity Center sits on his board, and Phillips himself, though he dropped out of the University of Mississippi after just a year, sounds like a professor on the subject. "Your costs in this business are associated with time," he expounds. "If it costs \$42 per hour to operate a garbage truck, and if you have enough market share to make a stop every 7 minutes instead of 15, then your cost per stop drops from \$10.50 to \$4.90."

For all the textbook talk, Phillips knows how to put his words to work. "It's much more practical to give peo-

ple a reason to be more productive, rather than just asking them to be," he notes. Accordingly, a garbage truck driver is paid not by the hour, but by the number of stops he can squeeze into his day. Other cost-cutters: Drivers get extensive safety training, since insurance costs sop up nearly 3% of revenues. Phillips keeps a close eye on industrial price indexes to make sure Browning-Ferris doesn't pay more than necessary for truck parts, fuel and the like. Studies decide which truck components, like engines and gear ratios, are best for which markets—flat terrain, say, versus hilly, or long highway drives to the landfill versus stop-and-go routes.

In short, Phillips overlooks no chance to coax a little more profit out of Browning-Ferris' ubiquitous blue trash bins. This isn't a recession-born policy either. Since 1977 the company's operating margin has grown steadily from 30.9% to 35.8%—progress that adds about \$35 million to present operating profits.

Founded in 1966 by an accountant disgruntled over poor garbage service in his neighborhood, Browning-Ferris grew at first mainly by buying smaller companies across the country. By the mid-1970s, says Phillips, who came to Browning-Ferris in 1970 when his five companies were acquired, it was time to seek economies in those new markets, especially by adding customers.

As revenues doubled in the past five years, Phillips more than quadrupled the sales force to over 400.

That helps during the recession. Salesmen are expected to bring in 80 to 100 net new customers yearly, so when old customers cut down collections, new customers fill up the routes and then some. Says Phillips, "We'll use productivity gains to counter rising costs," keeping Browning-Ferris' prices low.

In this rough trade a few points of market share can mean the difference between profit and loss—between 15 minutes per stop and 7. Not surprisingly, some competitors use dubious means to muscle their way to market saturation. Mob influence has long been a feature of the New Jersey garbage business, for example. Hazardous waste disposal has also seen its share of villainous corner-cutting. An Atlanta subsidiary (with less than 1%

of total revenues) is charged with market allocation at present, but Browning-Ferris has come through a few similar suits in the past without a whiff of scandal.

But the stench of old garbage keeps it strong, even in financing. With a hand from the cities it serves, a third of Browning-Ferris' \$115 million debt is financed through low-cost municipal revenue bonds. Phillips has also been paying down high-cost debt, partly from last year's \$35 million stock sale. Interest expenses have dropped from \$7 million to \$2 million in the first half of fiscal 1982.

Meanwhile, Browning-Ferris has been developing new markets, like joint ventures to build a garbage-to-energy plant on Long Island and to take out Riyadh, Saudi Arabia's trash for the next five years. Phillips is naturally looking to the long, well, haul.—Toni Mack

Fischbach Corp.

"We're just the prettiest"

As the nation's largest electrical and mechanical contractor, Fischbach Corp. boasts such diversity—in terms of products and geography—that it is able to weather the worst economic cycles. Even as competitors like Cento Industries of Texas go bankrupt, Fischbach's profits for the six months ending in March have climbed 20%, on a 23% increase in sales. Last year the company took

in \$1.1 billion in revenues. Return on equity is 17.6%.

Fischbach's secret isn't hard to discover. For one thing, the company enjoys great economies of scale in an industry that is swarming with small, undercapitalized firms. And Fischbach's size also enables it to snare the bigger, higher-priced contracts. Not that the margins are necessarily any better, but in tough times this high

end of the business tends to be less competitive. A small construction contract—worth, say, \$3 million—may attract a dozen bidders, while a \$10 million contract will typically draw only three.

Even though Fischbach is big, CEO Alfred Manville runs a lean, highly decentralized company. That gives him the flexibility to go where the business is—and in construction that's never the same place for long. When office construction slows, as Manville concedes it is already beginning to do, his big cranes can swoop easily into transportation or defense-related work. "Fischbach is adroit. When opportunity dries up, they are able to quickly move someplace else," says Robert Andrews, an industry consultant. Most competitors by contrast are regional firms that stay put.

One sign of Fischbach's strength: Last quarter the company posted a record backlog of about \$1.9 billion, as a result of strong industrial and transportation demand. "That should carry us through 1983, at least," Manville says.

Being in the right place at the right time, of course, isn't everything—you still have to win the bid. "We're just the prettiest," says the 64-year-old Manville, with his characteristically bemused smile. Analysts say that's not false bravado. "They're the best in the business, so when work comes up they get it," says Stanley Fishman, who follows construction for Fehnestock & Co. Fischbach's reputation rests with its 100-odd branch officers. They decide which jobs to bid, and have a free hand with contracts under \$8 million.

They hold firm on pricing. "If we can't get a fair markup, we won't take the job," Manville says. With discounting common during this recession, that effectively means turning away work. Manville speaks with disdain of his fellow construction contractors who price their bids so low that they don't figure overhead costs into each job they do. "That's suicide," he says.

Luck helps beat the recession, too. Some good guessing on interest rates has improved Fischbach's balance sheet. In mid-1980 the company had \$60 million in short-term debt—something that would be "a great burden today," Manville says. In October 1980, however, he issued \$30 million in 25-year debentures, paying interest of just 8.5%. Those savings boosted earnings by 90 cents a share last year. Since he was able to cull another \$30 million from operations, short-term



Fischbach's Alfred Manville

"If we can't get a fair markup, we won't take the job."

debt is now all but eliminated. Long-term debt is a manageable 30% of capital.

For all that, Fischbach has always kept a low public profile. With 32% of its stock held by institutions and another 25% controlled by Victor Posner, the trading is thin. Last fall Manville tried a small corporate ad-

vertising campaign. "I wanted to see if this would make us better known," he explains. Did it? "Not particularly," he smiles, as he rocks slowly in his black leather chair.

Can Fischbach keep going strong for the duration of the recession? Right now the consensus on The Street is that 1982 earnings will be

down slightly, but some analysts are predicting gains of perhaps 8%. Manville, who thinks that The Street may be "too pessimistic," still predicts no earnings decline. Not, of course, that Fischbach will be able to buck a weak economy indefinitely. "If everything goes to hell, then everything goes to hell," Manville says.—Barbara Rudolph

Light on their toes, fast on their feet

In each of the last five quarters these 106 corporations—all FORBES 500 companies either by sales, assets, profits or market value—have posted 9% or better year-to-year increases in earnings from continuing operations. We eliminated turn-around and cyclical situations by dropping those firms that had a falloff in 1980 earnings. To get a handle on the

future, we also added the consensus earnings estimates provided by the International Brokers Estimate Service. As the numbers show, security analysts expect most of these companies to keep on growing at least through 1982. Note, too, that a number of these stocks are now selling toward the low end of their 1980-to-present price range.

Company/business	% change —in earnings—		Earnings per share—			P/E ratio ²	Stock price—	
	latest 12 months	1982E vs 1981	latest 12 months	1981	1982E ¹		recent	range 1980 to present
Abbott Laboratories/health-care prods	16%	18%	\$2.08	\$2.01	\$2.37	14	28¾	32¼–17½
Albertson's/grocery stores	23	13	3.34	3.14	3.55	9	28½	29¾–16½
Allied Bancshares/banking	33	18	3.19	3.02	3.57	7	23½	34¼–11½
American Home Prods/proprietary drugs	13	13	3.30	3.18	3.59	11	35½	38¼–21¾
American Intl Grp/insurance	20	18	6.29	6.02	7.12	10	62	71¼–32½
American Med Intl/health-care svcs	33	43	1.89	1.60	2.28	10	19	32¾–12¾
Anheuser-Busch/brewing	32	13	5.29	4.79	5.43	9	49¼	51 –21
Apple Computer/computer equip	105	59	0.88	0.70	1.11	15	13½	34½–12¾
Automatic Data Process/computer svcs	19	16	1.66	1.51	1.75	15	24½	31¾–16¼
Baker Intl/oilfield services	55	29	4.10	3.36	4.35	6	25	53½–23¾
Baldwin-United/finance	59	52	3.98	3.87	5.88	7	29½	36¼–11¾
Banc One Corp/banking	13	11	5.15	5.01	5.55	8	42¾	42¾–16¾
Barnett Banks Fla/banking	14	9	3.55	3.44	3.75	6	20	29¾–11½
Bristol-Myers/proprietary drugs	13	16	4.75	4.58	5.29	11	53¾	59¾–30½
Brown-Forman Distillers/distilling	31	29	3.32	2.65	3.42	10	33¾	38½–17¼
Browning-Ferris Inds/waste mgmt	30	25	2.77	2.47	3.09	11	30¾	37¾–12¼
Cameron Iron Works/oilfield services	67	52	5.20	3.62	5.50	5	26¼	67 –24½
Campbell Taggart/food processing	14	14	2.56	2.50	2.85	9	23¾	25¼–13¼
Capital Cities Comm/broadcasting	14	14	6.24	6.12	6.97	12	73½	80½–40
Citizens Fidelity Corp/banking	17	11	2.98	2.89	3.21	6	18¾	22¾–9¾
Columbia Gas System/natural gas	19	5	5.98	5.50	5.77	5	30¾	47 –27¾
Combustion Engineering/machinery	45	14	5.35	4.45	5.08	5	26½	54¾–23¾
Commerce Clearing House/publishing	37	16	3.65	3.20	3.72	14	52¾	59½–24
Computervision/computer equip	42	18	1.31	1.30	1.53	21	27¾	49¾–9¼
Consolidated Foods/food processing	16	12	5.15	4.67	5.23	6	31¾	36¾–19¾
Cooper Industries/oilfield equipment	51	10	6.15	5.41	5.96	5	28¾	62 –28¼
Dillon Cos/grocery stores	42	16	2.72	2.28	2.65	8	22	25¾–12¼
Dover/machinery	33	16	2.84	2.69	3.13	7	20¾	33 –15¾
Dun & Bradstreet/publishing	18	18	4.49	4.33	5.10	15	67¼	72½–34¼
Electronic Data Sys/computer services	24	22	1.62	1.39	1.69	17	27¾	29¾–9¾
Enserch/nat gas, oilfld svcs	16	10	3.46	3.55	3.89	6	19½	40 –16¼
Farm House Foods/food wholesaling	88	NA	0.75	NA	NA	6	4¾	8½–2¼
Federal Express/package delivery	48	29	3.65	2.89	3.72	12	43½	72¼–19½
Fidelcor/banking	57	7	5.34	5.22	5.61	4	23¼	30½–8¾
First Executive Corp/insurance	40	NA	1.16	1.12	NA	8	9¾	12¾–2½
First Oklahoma Bancorp/banking	17	13	3.37	3.27	3.70	6	21¼	26½–12½
Fischbach/construction	32	–8	7.12	6.59	6.07	5	34½	42 –21¾
SM Flickinger/food wholesaling	16	NA	3.36	3.09	NA	5	17¾	21½–10
Flightsafety Intl/high-tech training	35	17	1.39	1.31	1.53	17	24¼	33½–10½
Fort Howard Paper/paper products	18	14	3.15	3.08	3.52	11	35	43 –17¾
General Instrument/electronics	11	39	3.01	2.49	3.47	11	34¼	46¾–12¾
General Re/insurance	15	16	8.50	8.13	9.43	9	79¾	90¾–37½
Geosource³/oilfield equip, svcs	46	29	4.95	4.06	5.22	8	41¾	65¾–21
Global Marine/oilfield services	66	35	3.01	2.61	3.53	4	11¾	36½–8½
WR Grace/chemical	37	13	8.83	6.85	7.74	4	34¾	63½–32¾

¹Source: Institutional Brokers Estimate System; Lynch, Jones & Ryan. ²Latest 12 months. ³Tentative agreement for remaining shares to be acquired by Aetna Life & Casualty. *Formerly Republic of Texas Corp. E: Estimate. NA: Not available.

Principal Source: William O'Neil & Co

Report from GTE.

Cooling the

The giant engines in the space shuttle "Columbia" burn half as hot as the sun's surface.

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Communications, too.

But GTE is also a communications company. GTE telephone systems link 15,000 people at the Kennedy Space Center with each other and the outside world. Altogether, we have supplied them with three computer-controlled telephone systems and 9,000 phones.

In addition, we've provided NASA with a packet-switching network which is vital to coordination of space missions. It sends vast quantities of data back and forth among the computers at NASA's widely-spaced Mars

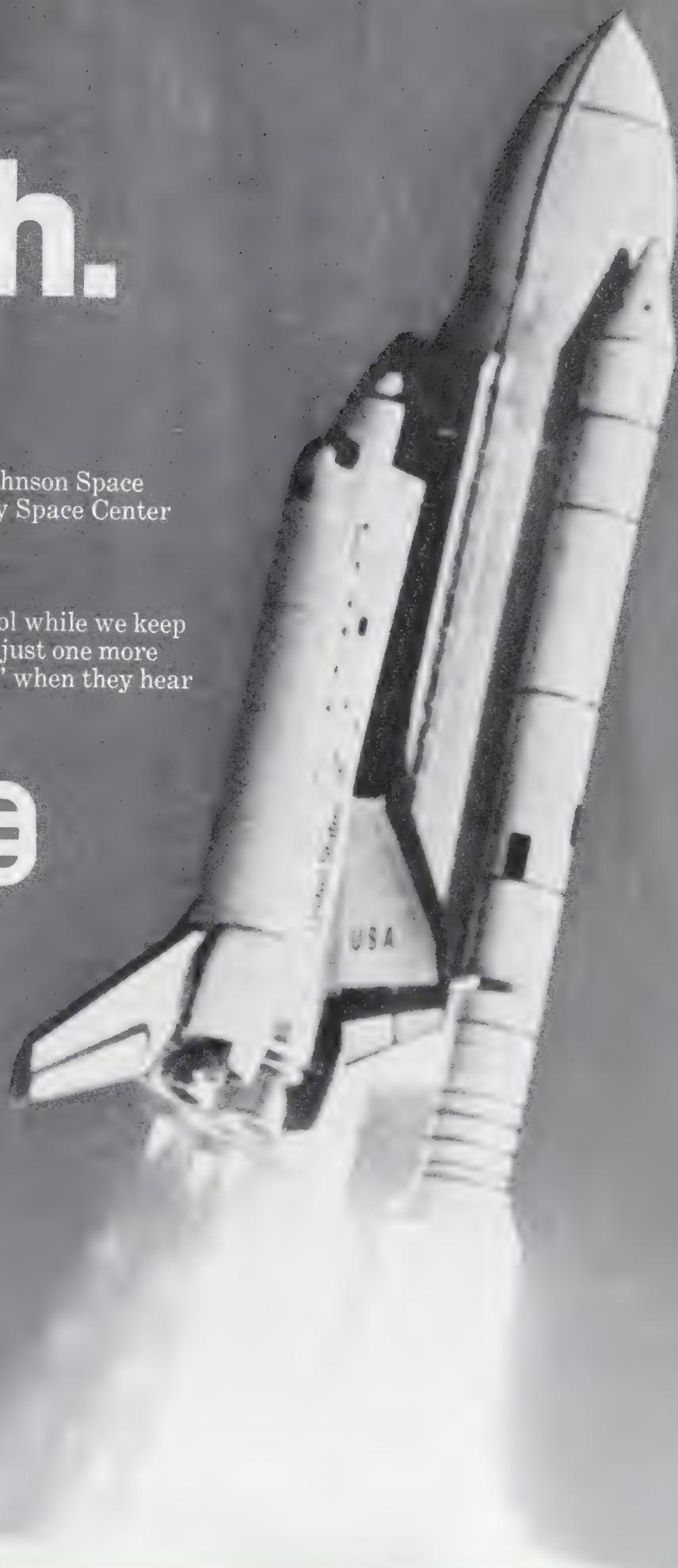
torch.

ce Center in Alabama, Johnson Space
ter in Texas and Kennedy Space Center
lorida.

el

helping keep the rocket cool while we keep
information flowing. It's just one more
on why people say "Gee!" when they hear
it GTE!

GTE



Light on their toes, fast on their feet

Company/business	% change in earnings		Earnings per share			P/E ratio ²	Stock price	
	latest 12 months	1982E vs 1981	latest 12 months	1981	1982E ¹		recent	range 1980 to present
Heublein/food & alcoholic beverages	15	12	4.58	4.09	4.60	8	36 $\frac{3}{4}$	41 $\frac{1}{4}$ -23 $\frac{3}{4}$
Hospital Corp of America/health care svcs	30	34	2.44	2.23	2.99	11	28	50 $\frac{1}{2}$ -17 $\frac{1}{2}$
Houston Natural Gas/natural gas	17	15	6.52	5.94	6.85	5	34 $\frac{3}{4}$	63 $\frac{3}{4}$ -32 $\frac{3}{4}$
Hughes Tool/oilfield equipment	59	12	4.84	4.60	5.17	4	21 $\frac{1}{2}$	48 $\frac{3}{4}$ -20 $\frac{3}{4}$
Humana/health care svcs	48	38	1.88	1.55	2.14	12	22 $\frac{1}{2}$	32 $\frac{3}{4}$ -9 $\frac{3}{4}$
InterFirst/banking	25	12	3.90	3.76	4.22	6	21 $\frac{1}{4}$	32 $\frac{3}{4}$ -16 $\frac{3}{4}$
Joy Manufacturing/construct. mgng mach	52	17	5.26	4.48	5.24	4	21 $\frac{1}{2}$	42 $\frac{3}{4}$ -18
La Land Offshr Exp/oil & gas exp & dev	36	NA	1.14	1.09	NA	6	6 $\frac{1}{2}$	15 $\frac{1}{2}$ -5 $\frac{3}{4}$
M/A-Com/telecomm equip	22	17	1.12	1.07	1.25	18	19 $\frac{3}{4}$	35 $\frac{1}{2}$ -9 $\frac{3}{4}$
MCI Communications/telecommun	906	74	1.81	1.81	3.15	22	39 $\frac{3}{4}$	39 $\frac{3}{4}$ -4 $\frac{1}{2}$
Marriott/hotels	19	17	3.30	3.21	3.77	11	36	47-16 $\frac{3}{4}$
McDermott/oilfield equip. svcs	163	119	4.98	2.07	4.54	4	20 $\frac{3}{4}$	46 $\frac{3}{4}$ -19 $\frac{1}{4}$
McGraw-Hill/publishing	13	14	4.04	3.94	4.50	13	50 $\frac{1}{4}$	56-24 $\frac{1}{4}$
Mercantile Texas/banking	23	10	4.05	3.89	4.29	6	22 $\frac{1}{2}$	36 $\frac{3}{4}$ -12 $\frac{3}{4}$
Morton-Norwich Prods/household prods	22	12	4.34	3.90	4.36	8	33 $\frac{3}{4}$	39 $\frac{3}{4}$ -21 $\frac{3}{4}$
NL Industries/oilfield services	86	16	5.22	4.69	5.46	4	20 $\frac{1}{4}$	48 $\frac{3}{4}$ -15 $\frac{1}{4}$
National Medical Ent/health-care svcs	29	25	1.45	1.24	1.55	9	13 $\frac{3}{4}$	28 $\frac{3}{4}$ -8 $\frac{1}{4}$
AC Nielsen/publishing	23	22	3.54	3.21	3.91	13	45 $\frac{1}{4}$	50 $\frac{1}{4}$ -20 $\frac{1}{4}$
Nike/footwear	76	NA	2.47	1.52	NA	12	29 $\frac{3}{4}$	30 $\frac{3}{4}$ -17 $\frac{1}{4}$
Noble Affiliates/oilfield svcs, oil, gas	53	17	1.90	1.81	2.12	6	12	32 $\frac{3}{4}$ -10 $\frac{3}{4}$
Oklahoma Gas & Electric/electric utility	31	14	2.32	2.05	2.34	7	16 $\frac{3}{4}$	17-11 $\frac{1}{2}$
Pacific Power & Light/electric utility	9	6	3.01	2.82	2.98	6	18 $\frac{1}{4}$	22 $\frac{1}{4}$ -16
Paradyne/computer equipment	77	54	1.52	1.36	2.09	21	31 $\frac{3}{4}$	51 $\frac{3}{4}$ -8 $\frac{1}{2}$
Parker Drilling/oilfield services	38	14	3.04	2.75	3.14	4	12 $\frac{1}{2}$	36 $\frac{3}{4}$ -12
Parsons Corp/construction	34	16	2.05	2.01	2.33	7	14 $\frac{3}{4}$	36 $\frac{3}{4}$ -11 $\frac{3}{4}$
Penn Central/multicompany	113	11	4.73	3.50	3.88	6	26 $\frac{3}{4}$	32 $\frac{3}{4}$ -9 $\frac{3}{4}$
PepsiCo/food processing	13	16	3.69	3.61	4.18	10	36 $\frac{3}{4}$	39 $\frac{1}{4}$ -20
Petrolane/oilfield svcs, equip	22	21	2.15	1.90	2.30	7	14 $\frac{1}{4}$	26 $\frac{1}{4}$ -12 $\frac{1}{2}$
Philadelphia Electric/electric utility	12	2	2.36	2.25	2.30	6	14 $\frac{1}{4}$	17-11 $\frac{1}{4}$
Philip Morris/tobacco	20	20	5.66	5.41	6.47	9	48 $\frac{3}{4}$	55 $\frac{1}{4}$ -29 $\frac{1}{4}$
Pneumo/aerospace	33	15	4.13	3.81	4.39	6	23 $\frac{1}{4}$	36 $\frac{1}{4}$ -17 $\frac{1}{4}$
Portland General Electric/electric utility	43	-2	2.84	2.54	2.49	5	13 $\frac{1}{2}$	14 $\frac{1}{2}$ -11
RepublicBank Corp ⁴ /banking	24	13	5.36	5.17	5.83	5	28 $\frac{1}{2}$	38 $\frac{3}{4}$ -17 $\frac{1}{2}$
Rochester Gas & Electric/electric utility	28	0	3.04	2.93	2.93	5	14	14 $\frac{3}{4}$ -10
Rollins/multicompany	21	17	1.81	1.62	1.89	8	13 $\frac{3}{4}$	22 $\frac{1}{2}$ -7 $\frac{3}{4}$
ROLM/telecomm equip	17	23	1.59	1.39	1.71	17	27	50 $\frac{3}{4}$ -17 $\frac{1}{4}$
Rowan Cos/oilfield services	65	22	2.74	2.22	2.71	4	9 $\frac{3}{4}$	23 $\frac{1}{2}$ -9 $\frac{3}{4}$
Smith International/oilfield equip	56	15	6.29	5.80	6.67	4	27 $\frac{3}{4}$	70 $\frac{1}{4}$ -27
SmithKline Beckman/drugs, prec inst	13	9	5.07	5.55	6.04	13	64 $\frac{1}{4}$	88 $\frac{3}{4}$ -43 $\frac{1}{2}$
Sonat/natural gas	18	17	4.56	4.24	4.96	5	25	37 $\frac{1}{4}$ -20 $\frac{3}{4}$
Southland/grocery stores	24	13	4.07	3.86	4.36	7	30 $\frac{3}{4}$	35-16 $\frac{3}{4}$
Southwest Bancshares/banking	35	15	4.31	4.00	4.60	5	23 $\frac{3}{4}$	33 $\frac{3}{4}$ -14
Storage Technology/computer equip	52	26	2.73	2.50	3.16	8	21 $\frac{3}{4}$	40 $\frac{3}{4}$ -11 $\frac{3}{4}$
Super Valu Stores/food wholesaling	16	16	1.77	1.77	2.06	10	16 $\frac{3}{4}$	20 $\frac{3}{4}$ -9
Sysco/food wholesaling	22	20	1.62	1.41	1.69	14	22 $\frac{1}{4}$	23-6 $\frac{3}{4}$
Tandem Computers/computer equip	78	50	0.89	0.72	1.08	28	24 $\frac{1}{4}$	35-6 $\frac{1}{4}$
Tandy Corp/consumer electronics	47	33	2.10	1.65	2.20	13	26 $\frac{3}{4}$	39 $\frac{1}{4}$ -7 $\frac{1}{4}$
Texas Commerce Bancshares/banking	27	16	4.83	4.60	5.32	7	32 $\frac{1}{4}$	45-20 $\frac{3}{4}$
Texas Oil & Gas/oil and gas	34	34	2.31	2.00	2.67	12	27 $\frac{3}{4}$	41 $\frac{3}{4}$ -13 $\frac{3}{4}$
Transco Energy Co/natural gas	16	16	5.57	5.41	6.30	5	27 $\frac{1}{2}$	64 $\frac{1}{4}$ -27 $\frac{1}{4}$
Trust Co of Georgia/banking	25	11	5.14	4.94	5.47	6	30 $\frac{3}{4}$	34 $\frac{3}{4}$ -12 $\frac{3}{4}$
Tucson Electric Power/electric utility	56	-24	3.77	3.80	2.88	6	21 $\frac{1}{4}$	23 $\frac{1}{4}$ -12
Turner Construction/construction	38	NA	4.84	4.65	NA	5	22 $\frac{1}{4}$	33 $\frac{3}{4}$ -12 $\frac{1}{2}$
United Energy Resources/natural gas	19	13	8.07	7.75	8.75	4	31 $\frac{3}{4}$	56-24
United Missouri Bancshares/banking	25	NA	5.29	4.84	NA	5	24 $\frac{1}{4}$	30 $\frac{1}{4}$ -14 $\frac{1}{4}$
Wachovia/banking	19	12	4.34	4.13	4.63	5	23 $\frac{1}{2}$	28 $\frac{1}{4}$ -15 $\frac{1}{4}$
Wal-Mart Stores/retail	43	30	2.64	2.50	3.24	18	48 $\frac{1}{4}$	53 $\frac{1}{4}$ -13 $\frac{1}{4}$
Walgreen/drugstores	14	16	3.15	2.82	3.27	9	27 $\frac{3}{4}$	30 $\frac{3}{4}$ -13 $\frac{1}{4}$
Wang Laboratories/computer equip	28	29	1.63	1.36	1.76	17	27 $\frac{1}{2}$	45 $\frac{3}{4}$ -14 $\frac{1}{4}$
Warner Communications/entertainment	54	50	3.96	3.57	5.35	12	47 $\frac{3}{4}$	63 $\frac{1}{4}$ -17 $\frac{1}{4}$
Waste Management/waste management	33	31	2.08	1.95	2.55	15	30 $\frac{3}{4}$	41 $\frac{1}{4}$ -12

¹Source: Institutional Brokers Estimate System; Lynch, Jones & Ryan. ²Latest 12 months. ³Tentative agreement for remaining shares to be acquired by Aetna Life & Casualty. ⁴Formerly Republic of Texas Corp. E: Estimate. NA: Not available.

Principal Source: William O'Neil & Co

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to get the results you want.**



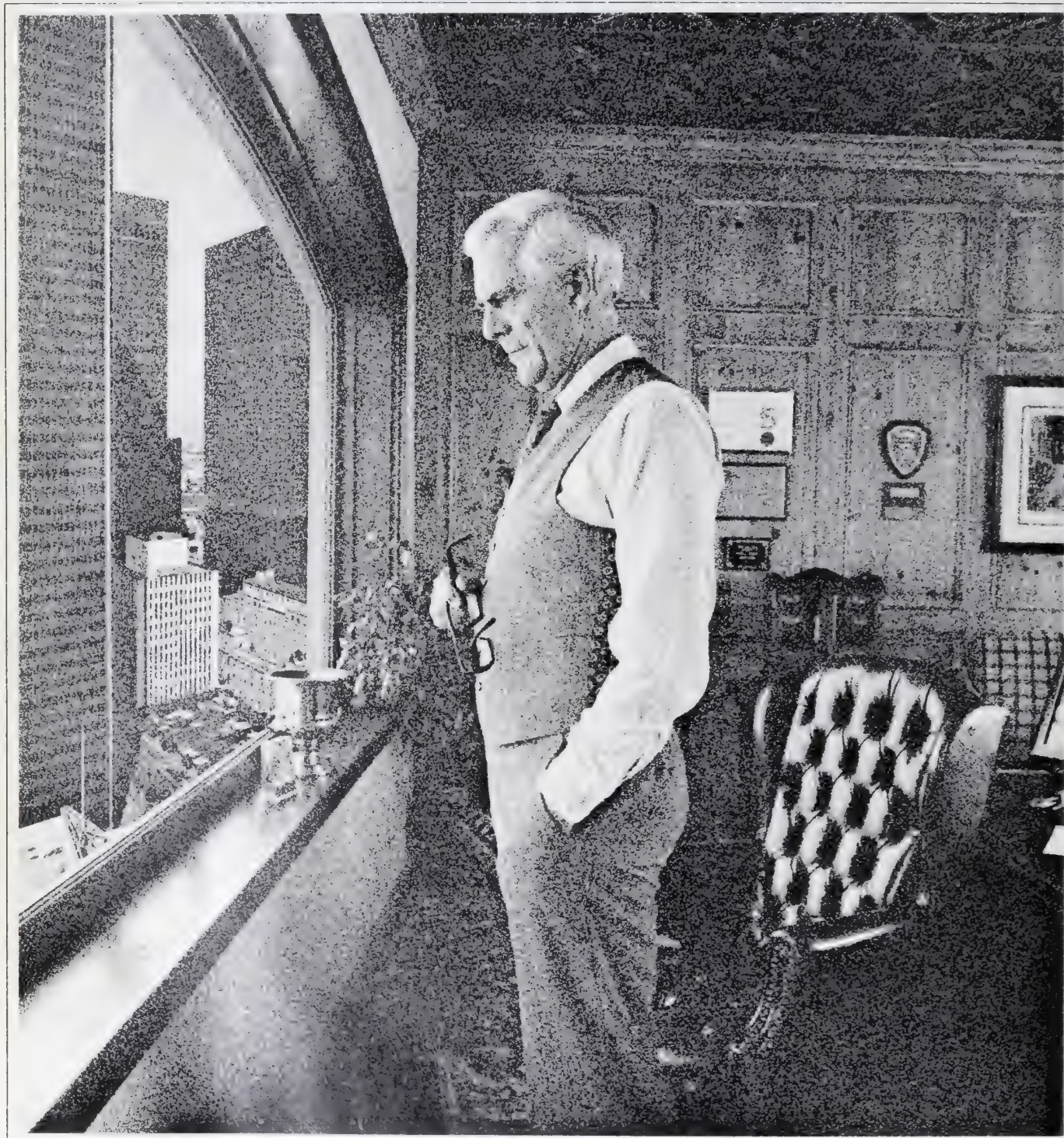
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Half the Free World's total equity capital is now invested outside the U.S. As recently as a decade ago, it was less than one-third the total. U.S. money managers had better take those numbers as a warning: Broaden your horizons or watch your assets shrink.

The planet earth stock exchange

WE DO BUSINESS in a global village, to paraphrase Marshall McLuhan.

By Lawrence Minard

As Coca-Cola discovered decades ago and the Japanese have shown more recently, the marketplace transcends national boundaries. So, increasingly, does equity investing, although U.S. pension funds and their managers have been slow to pick up on the trend.

Less than 1% of U.S. pension fund assets of over \$500 billion are invested abroad. But there will be more, says Executive Vice President Rodger Smith of Connecticut's Greenwich Research Associates, a pension fund management consultancy. Three years ago, says Smith, only 7% of the 1,652 large U.S. corporate pension funds he tracks had any assets invested abroad. By last year 16% had roughly \$3.2 billion in an overseas equity portfolio included in their total assets of \$375 billion. (Noncorporate funds had another \$1.8 billion overseas, by Smith's estimate.)

"By 1984," he says, "probably a third of the companies will be investing abroad. If you couple that with their increasing cash flow, the actual dollar amounts invested abroad will be very large." How large? Smith thinks \$15 billion to \$20 billion by 1985 is a fair guess.

"What is developing is a pooling of international capital for global investment," says Michael Bullock, 31, global fund manager at London merchant bank Morgan Grenfell Ltd. "Increasingly, U.S. pension plans are giving their money managers a global investment brief."

Guiding their clients into unfamiliar foreign stock markets may present a challenge to U.S. fund managers, but London's adept international money men see a golden opportunity. At the 0.75% annual management fee U.S. funds typically pay their international investment advisers (the standard fee in Britain is around 0.25%), \$20 billion under management would generate \$150 million a year. That's nearly a third of the fee income currently generated by Britain's entire \$200 billion-assets pension fund business. No wonder the London money managers are straining at the bit.

They have already captured a fair piece of business. Among American global equity managers, only Morgan Guaranty (with around \$1.6 billion in internationally invested funds), Fidelity International (\$150 million) and Putnam (\$192 million) have won major global accounts on their own. London's Morgan Grenfell has around \$300 million of U.S. pension fund assets under global management; Ivory & Sime, \$125 million; GT Capital, \$201 million; Lombard Odier, \$183 million. London's Robert Fleming Holdings, in partnership with T. Rowe Price

Associates, manages another \$200 million; S.G. Warburg & Co. Ltd.,

linked with Aetna, another \$205 million. A fourth group of British companies is gearing up for the assault on the U.S. market. This division includes London's big pension and mutual fund managers Touche Remnant & Co. (\$2.5 billion assets under management) and the august Prudential Assurance Co. Ltd. (no relation to the U.S.' Pru), which currently manages \$1.2 billion in overseas funds for U.K. pension plans.

The British money men say history is their credential. "The typical U.S. manager is not experienced internationally and thinks foreign currency risk is a very dangerous thing," says Bullock of Morgan Grenfell. "But the City [of London] has been involved in international finance for 200 or 300 years."

Michael (Mick) Newmarch, age 43, head of Holborn International, which Prudential Assurance created to capture U.S. pension fund management contracts, sees provincialism: "If you go to New York you can't find out what's happening in the rest of the world. You read the *Wall Street Journal* and the New York press, and the rest of the world is something that happens the day before yesterday. But here in London communications are much better developed."

Newmarch is confident. "Any major money management organization in the world will have to be international within ten years," he says, adding with a shrug, "the Americans will get to that later." Whether he's waging psychological warfare on his competitors or only underestimating them, Newmarch's point—that international equity diversification will grow—is beyond argument.

According to statistics compiled by Geneva's authoritative world equity markets watcher *Capital International Perspective* (see chart, p. 111), Japanese market capitalization has climbed nearly tenfold since 1970. Singapore's capitalization is up 16 times; Hong Kong's up 20 times. Even Germany's market has more than doubled in size. The U.S. market, by contrast, has grown by just 70%.

Part of the fast growth is explained, of course, by low starting points abroad. In 1970 foreign markets combined for less than one-third of the Free World's equity capital pool, but today they account for half. The money men argue that to ignore half the equity universe is arrogant at best, folly at worst.

An American readily agrees. William Marshall is head of General Telephone & Electronics' \$3 billion pension fund, a large but undisclosed portion of which has been invested

Lively, but thin

The U.S. market has been on a virtual plateau for more than a decade, compared with the lively stock exchanges of Asia. Beginning in the mid-Seventies, the markets of Hong Kong, Japan and Singapore diverged increasingly from those of America and Europe.

abroad since 1979. "In theory," says Marshall, "higher real rates of return should be available in other lands, because other countries' economies have higher savings ratios, better productivity, greater real growth. Normally you expect capital to flow in the direction of higher real rates of return. And that is what in fact happened through the 1970s." Marshall thinks the current international attraction to high U.S. interest rates and the strong dollar is a pause in the long-term trend.

But if buying the idea of international diversification is relatively easy, putting it into practice is far harder. Many of the world's hotter markets are still dangerously shallow. With total capitalization of \$26 billion, the Singapore market is only about double the size of General Motors' pension plan.

Also, given differing accounting and taxation practices worldwide, it is difficult to compare different stocks, different markets. Example: By *Capital International Perspective's* latest figures, the Swiss market sells at an average 9.1 times earnings. The U.S. market sells at 7.4 times. So, is the U.S. cheaper? Not necessarily. Thanks to more liberal tax and depreciation policies, Switzerland sells for just 3.7 times its cash earnings, vs. 4.3 times cash flow for the U.S.

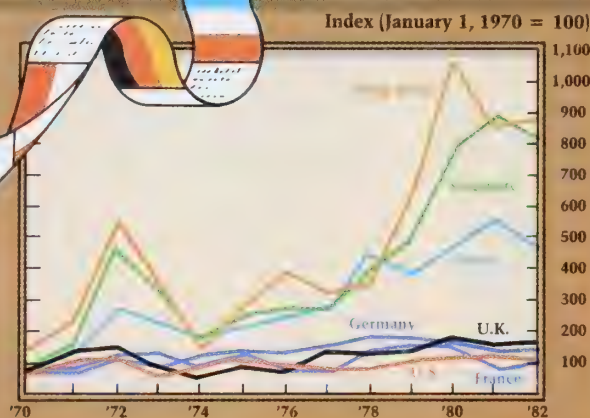
There is another problem: the sheer diversity offered by

global scope. Morgan Grenfell's Mike Bullock reckons that an international money man worth his salt must pick and choose among 7,000 companies spread across 16 markets—a mind-numbing task for investors who find it difficult enough to track 3,000 or so U.S. stocks.

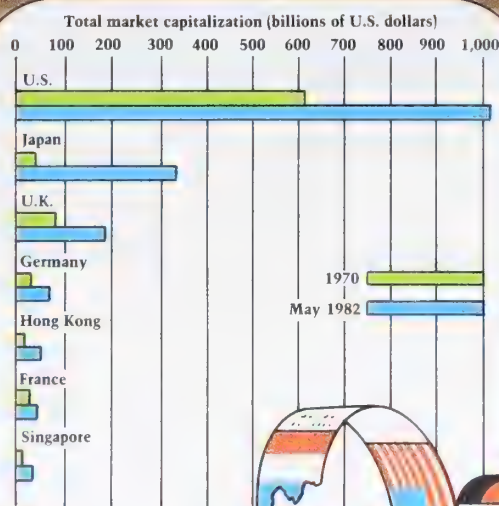
How do you pick and choose among 16 markets, 7,000 stocks?

The way *not* to do it, says Prudential Assurance's Mick Newmarch, is blithely to buy similar stocks in different markets because the chosen stocks appear to be bargains—Ben Graham globally applied, as it were.

"Of the relatively few Americans who invest internationally," says Newmarch, a London University-educated economist, "most tend to be bottom-up, value oriented—the guy who says, 'I think [German retailer] Karstadt is attractive relative to, say, Marks & Spencer or J.C. Penney, so I'll buy it.' That's not a winning game." Why not? "Because relative value between markets is still inefficiently observed. If you're operating from New York, say, looking at earnings in a currency other than dollars, selling in a market that is not American dominated, and selling to a consumer market that is not American



However, in total capitalization, only the U.S., Japan and Britain have market depth.



Source: Capital International Perspective

Given the opportunities overseas and the general tendency of capital to exploit information gaps, pension funds and other institutional investors will be placing more of their assets abroad. That won't mean bad news for U.S. stocks—the amounts are too small. But it could be bad news for U.S. fund managers.

dominated, then your perception of what is a 'cheap' share is totally different from the guy who sits in Tokyo and looks at the same data in Japanese terms. The man who is trying to make decisions about the Japanese market must be aware of the differing psychologies between markets. Otherwise he can buy cheap shares forever—and they'll remain cheap."

The problem, explains Newmarch, is that international investing lacks the "players"—the multitude of investors contributing information and decisions to the market and refining out anomalies in prices.

"Now one day," Newmarch goes on, "when there are enough players in the game, then the world equity market will become more efficient, more value oriented." But in the meantime, money men like Bullock and Newmarch combine old-fashioned bargain hunting with what Newmarch calls a "top-down" approach. They first pick markets and currencies they believe will do well. Bullock, for example, thinks the Japanese and German markets will outperform the Australian and Canadian markets in the months ahead. Why? Because Canada and Australia are basically natural resource markets, and natural resource prices are currently depressed. But Japan and Germany are resource-poor industrial economies, likely to benefit from the same forces that depress Canada and Australia.

After choosing markets, investors canvass their contacts in the individual areas to pick the stocks. "Over the years," says Newmarch, "Prudential has tried to become the third or fourth, or even second, most important foreign client of the brokers in all the markets we deal in."

So what kind of advice do global market specialists give? Familiar advice; only the background is exotic. Patrick Thompson and Roy Gillson are Holborn International's portfolio managers for Far Eastern and European markets, respectively. Thompson likes Japan because it is relatively liquid and has been knocked down in recent months by fears of global protectionism. He likes Hitachi, Fujitsu and Nippon Electric in industrial electronics and TDK (*FORBES*, Mar. 1) and Hitachi-Maxell, which make tape for video cassette recorders. In the pharmaceutical field he likes Green Cross, the world's sole producer of artificial blood (*FORBES*, Nov. 9, 1981). Green Cross is selling at 56 times earnings, but Thompson thinks it deserves the multiple. As we say, the advice is familiar.

However, Prudential Assurance's \$1.2 billion (assets) international funds have reduced their Japanese exposure from 35% last year to 18%. The reason: Japan's monetary policy—lax of late—is probably about to tighten. That will be good for the yen, bad for stocks. So Pru has increased

holdings in Europe from 12% to 18%. (60% is in U.S. equities).

Holborn's Gillson likes Germany, selling at less than 10 times cash flow. Its market tends to be sensitive to interest rate moves, and Gillson thinks German rates are heading down. That will benefit the big banks like Deutsche Bank and BHF Bank, both of which, says Gillson, have almost completely reserved against their soured Eastern European loans. He advises caution, however, on highly leveraged Commerzbank and Dresdner Bank, which have not reserved as well.

Gillson also likes Holland, where companies have introduced far-reaching modernization programs. He mentions electronics giant Philips Lamp, publishing conglomerate VNU and papermaker Buhrmann-Tetterode.

France? It's not hopeless, says Gillson, because French businessmen are accustomed to government interference, the franc's recent devaluation had been almost entirely discounted and there are bargains around: Air Liquide (industrial gases), BSN-Gervais Danone (food packager and processor) and Moët-Hennessy (champagne cognac and cosmetics). On Italy he is terse: "Excepting Olivetti, you generally cannot tell what Italian profits are or aren't."

Clearly, global investing is no easy task. But given the opportunities overseas and the general tendency of capital to exploit information gaps, pension funds and other institutional investors will be placing more of their assets abroad. That won't mean bad news for U.S. stocks—the amounts are too small. But it could be bad news for U.S. fund managers.

Greenwich Research's Rodger Smith says that many U.S. money managers, notably big U.S. banks, have let global investment management go to the British by default because the amounts invested are still relatively small. "The banks," says Smith, "would rather pick up an extra \$2 billion in U.S. equities to manage than fight for an extra \$200 million in internationally invested assets."

He warns that such complacency could one day haunt the banks, many of whose records at managing U.S. equity portfolios are inferior to their British counterparts'. "I would guess," offers Smith, "that by going after the U.S. pension funds' international asset management, the British are really establishing a beachhead from which to compete, in a few years, for U.S. asset management." Detroit once dismissed Japanese cars as too small to worry about, too.





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The 100 largest foreign investments in the U.S.

*Who likes U.S. companies best?
The Europeans, the Canadians, the Japanese—
and a tiny Arab sheikhdom*

The 100 largest U.S. multinationals

*It's no accident these days that—
with a couple of notable exceptions—
the biggest U.S. companies are also
the biggest U.S. multinationals*

The 100 largest foreign companies

*Royal Dutch/Shell Group is still number one, but
take a look at the Japanese*





The 100 largest foreign investments in the U.S.

Foreign investor	Country	U.S. company	% owned	Industry	Revenue (millions)	Net income (millions)	Assets (millions)
1 Anglo American Corp of So Africa Ltd¹	So Africa						
<i>Minerals & Resources¹</i>	Bermuda	Phibro-Salomon ¹	27%	metal trading, brokerage	\$25,098	\$289.3	\$5,788
		Engelhard Corp ¹	28	metals	2,192	71.6	705
		Inspiration Consol Copper	50	copper	165	-24.2	223
<i>Hudson Bay Me¹</i>	Canada	Terra Chemicals ²	100	fertilizer	350E	7.0E	175E
					27,805		
2 Royal Dutch/Shell Group¹	Netherlands	Shell Oil ¹	69	oil	21,629	1,701.0	20,118
	UK	Scallop Corp	100	oil			
		Massey Coal	50	coal			
		Billiton Metals & Ores	100	metals	4,700E	NA	5,900E
		Ocean Minerals	48	metals			
		Billiton Exploration	100	metals			
					26,329E		
3 Seagram Co Ltd¹	Canada	Joseph E. Seagram & Sons	100	spirits & wines	1,466	291.9	5,397
		EI Du Pont ¹	20	chemicals, energy	22,790	1,081.0	23,829
					24,256		
4 British Petroleum Plc¹	UK	Standard Oil Ohio ¹	53	energy	13,457	1,946.9	15,743
5 Fried Flick Group	Germany	WR Grace ¹	28	chemicals, multicompany	6,521	361.3	5,022
6 Tengelman Group	Germany	Great A&P Tea ¹	50	supermarkets	6,227	-31.6	1,142
7 B.A.T Industries Plc¹	UK	BATUS	100	paper, retailing, tobacco	4,600	180.0	2,929
		Germaine Monteil	100	cosmetics			
		Marshall Field ¹	80	retailing	1,194	22.6	681
					5,794		
8 Générale Occidentale SA	France	Grand Union	100	supermarkets	4,137	24.7	756
		Diamond Intl ¹	41	packaging, lumber	1,289	31.8	932
					5,426		
Beneficiaries of US Philips Trust	Netherlands	North Am Philips ¹	62	electronics	3,030	104.0	1,854
		Sigmetics	100	semiconductors	344	NA	NA
					3,374		
9 Bayer AG¹	Germany	Mobay Chemical	100	chemicals	1,270	57.7	1,303
		Miles Laboratories	100	health care	770	1.5	684
		Cutter Laboratories	100	health care	353	4.9	385
		Helena Chemical	100	chemicals			
		Haarmann & Reimer	100	chemicals	637	NA	NA
		Agfa-Gevaert	100	photographics			
					3,030		
10 Unilever NV¹	Netherlands	Lever Brothers	100	consumer goods	1,173	-11.5	471
		Thomas J Lipton	100	food	865	49.6	535
		Natl Starch & Chemical	100	adhesives, starch	668	41.4	405
					2,706		
11 Midland Bank Ltd	UK	Crocker National Corp ¹	54	banking	2,654	62.9	22,494
12 Regie Nationale des Usines Renault	France	American Motors ¹	46	automotive	2,589	-136.6	1,101
13 Petrofina SA	Belgium	American Petrofina ¹	75	energy	2,504	74.1	1,146
		Finadel	100	oil & gas exploration	29	11.6	237
					2,533		
14 Nestlé SA	Switzerland	Nestlé	100	food			
		Libby, McNeill & Libby	100	food			
		Stouffer Corp	100	food, restaurants			
		Alcon Laboratories	100	drugs	2,500E	NA	NA
		Beech-Nut	100	food			
		other companies	100	food, drinks, health care			

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The 100 largest foreign investments in the U.S.

Foreign investor	Country	U.S. company	% owned	Industry	Revenue (millions)	Net income (millions)	Assets (millions)
15 Volkswagenwerk AG¹	Germany	Volkswagen of America Triumph Adler	100% 100	automotive bus machines & info sys	\$1,900E 600 2,500E	NA NA	\$1,000 NA
17 Hongkong & Shanghai Banking Corp¹	Hong Kong	Marine Midland Banks ¹	51	banking	2,484	\$81.3	18,681
18 Cie Française des Pétroles	France						
<i>Total Petroleum NA Ltd</i>	Canada	Total Petroleum	100	energy	2,354	NA	871
19 Brascan Ltd¹	Canada	Scott Paper ¹	21	paper products	2,309	133.3	2,299
20 Schlumberger NV¹	Neth Antilles	Schlumberger Technology	100	oilfield svs, electronics	2,300E	NA	1,800
21 Canadian Pacific Ltd¹	Canada	Soo Line Railroad	56	railroad	330	36.4	526
<i>Canadian Pacific Enterprises Ltd</i>	Canada	Canadian Pacific Enterprises US Inc	100	agric products, minerals, china	1,820 2,150	37.1	1,493
22 Imperial Chem Inds¹	UK	Fiber Industries	38	man-made fibers	1,097	NA	536
		ICI Americas	100	drugs, chemicals	950E	NA	NA
		Rubicon Chemicals	100	chemicals	NA	NA	NA
		Corpus Christi Petrochemical Co	38	chemicals	NA	NA	NA
					2,047E		
23 George Weston Ltd	Canada	Interbake Inc	100	biscuits			
		Stroehmann Brothers	100	bakery	320E	NA	NA
<i>Loblaw Cos</i>	Canada	Eastern Fine Paper	100	paper products			
		Peter J Schmitt	100	food wholesaling	395	NA	NA
		National Tea	100	supermarkets	1,264 1,979	13.6	NA
24 Ciba-Geigy Ltd	Switzerland	Ciba-Geigy Corp	100	chemicals, drugs	1,887	NA	1,400
25 Consolidated Gold Fields Plc¹	UK	Amcon Group	100	drill rigs, mng, stl, concrete	970	26.6	653
		Newmont Mining ¹	22	mining	903 1,873	81.0	1,933
26 BASF AG¹	Germany	BASF Wyandotte	100	chemicals	967	26.7	791
		Badische	100	man-made fibers	563	17.6	410
		BASF Systems	100	magnetic media	78	NA	NA
		Fritzsche Dodge & Olcott	100	flavors & fragrances	81	NA	NA
		Cook Industrial Coatings	100	automotive paints	150E	NA	NA
		Knoll Pharmaceutical Co	100	drugs, chemicals			
					1,839		
27 Thomas Tilling Plc	UK	Thomas Tilling	100	energy, medical supplies, electrical equipment	1,625	37.0E	830
28 Hoechst AG¹	Germany	American Hoechst	100	chemicals	1,609	24.0	1,228
29 Kuwait Petroleum	Kuwait	Santa Fe International	100	oil drilling	1,600E	175.0E	1,550
30 Grand Metropolitan¹	UK	Liggett Group	100	tobacco, drinks & food	1,193	53.6	1,009
		Intercontinental Hotels	100	hotels	269 1,462	25.4	277
31 Noranda Mines Ltd	Canada	Noranda Aluminum	100	aluminum	386	NA	366
		Norandex	100	aluminum fabricating			
		Norandal	100	aluminum fabricating			
		Fraser Paper	63	paper manufacturing	341	NA	637
		Carol Cables	100	wire and cable			
<i>MacMillan Bloedel Ltd¹</i>	Canada	MacMillan Bloedel Inc	100	forest products	700E 1,427E	NA	470

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The 100 largest foreign investments in the U.S.

Foreign investor	Country	U.S. company	% owned	Industry	Revenue (millions)	Net income (millions)	Assets (millions)
32 Commercial Union Assurance Ltd	UK	Commercial Union Corp	100%	insurance	\$1,424	\$11.2	\$2,450
33 Hanson Trust Plc¹	UK	McDonough	100	footwear, cement, tools	225		
		Hygrade Food Products	100	meat processors	494		
		Interstate United	100	food service management	362	18.7	60
		Hanson Industrial Services	100	specialty textiles	214		
		American Farm Products	100	fishing, agric products	54		
					<u>1,349</u>		
34 Alcan Aluminium Ltd¹	Canada	Alcan Aluminum Corp	100	aluminum	1,319	18.0	71
35 Rhône-Poulenc SA	France	Morton-Norwich Products ¹	21	salt, food, chemicals	958	53.0	69
		Rhône-Poulenc	100	chemicals, phototypesetting	249	NA	NA
		Dysan Corp ¹	20	data process equipment	104	5.2	12
					<u>1,311</u>		
36 Siemens AG¹	Germany	Siemens Corp	100	medical, electronics, communications	784	NA	90
		Siecor Inc	50	telephone, fiber optics	112	NA	9
		General Numeric	50	computer equipment			
		Siemens-Allis	85	power engineering	400	14.2	23
					<u>1,296</u>		
37 Imperial Group¹	UK	Howard Johnson	100	hotels & restaurants	669	NA	NA
		Country Pride Foods	100	poultry, food supplier	575E	NA	NA
		Lea & Perrins	86	saucers	25	NA	NA
					<u>1,269E</u>		
38 Alusuisse	Switzerland	Consolidated Aluminum	84	aluminum	687	NA	79
		Maremont Corp	100	auto parts	405	NA	31
		Lonza Inc	100	chemicals	136	NA	10
		Heyward-Robinson	100	engineering, consulting	35	NA	1
					<u>1,263</u>		
39 Delhaize-Le Lion SA	Belgium	Food Town Stores ¹	52	supermarkets	667	19.3	13
		Food Giant	100	supermarkets	591	-2.8	7
					<u>1,258</u>		
40 Dalgety Plc	UK	Dalgety Foods	100	frozen foods			
		Martin-Brower Co	100	distribution			
		Pig Improvement Co	100	pig breeding	1,255	4.3	11
		Modern Maid Food	100	food coatings			
40 Thyssen Group¹	Germany	Budd Co	100	auto parts, machine tools, RR equip	1,255	NA	NA
42 Moore Corp Ltd¹	Canada	Moore Business Forms	100	business forms	1,186	NA	65
		FN Burt Company	100	packaging	36	NA	1
					<u>1,222</u>		
43 Pechiney Ugine Kuhlmann	France	Howmet Aluminum	100	aluminum products	557		
		Howmet Turbine Components Corp	100	engine castings	654	87.9	70
					<u>1,211</u>		
44 Northern Foods Ltd	UK	Bluebird Inc	100	meat products	700E	NA	NA
		Keystone Foods	100	meat, poultry	500E	NA	NA
					<u>1,200E</u>		
45 Akzo NV¹	Netherlands	Akzona ¹	66	chemicals, fibers	1,188	11.6	83

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Royal Insurance Co	UK	Royal Group	100%	insurance	\$1,174	\$61.2	\$2,106
The BOC Group Plc ¹	UK	Airco Inc	100	industrial gases	1,167	108.0	1,145
Mitsui & Co Ltd ¹	Japan	Alumax	45	aluminum	1,164	110.1	1,132
General Electric Ltd ¹	UK	AB Dick	100	office equipment	450E	NA	NA
		Alco Power	100	diesel engines	100E	NA	NA
		Picker Intl	80	medical equip and systems	600E	NA	NA
					1,150E		
Henkel KGaA	Germany	Henkel Corp	100	chemicals	430E	NA	NA
		Amchem Products	100	chemicals			
		Clorox ¹	25	household products	714	38.1	416
					1,144E		
6 European Banks	6 countries	European Amer Bancorp	100	banking	1,139	33.3	8,146
Swiss Reinsurance Co	Switzerland	N Am Reinsurance	100	insurance	576	41.7	1,518
		N Am Reassurance	100	insurance	160	NA	384
		SwissRe Life Ins	100	insurance	211	NA	56
		other companies	100	insurance	144	NA	712
					1,091		
Genstar Ltd ¹	Canada	Genstar Building	100	building materials			
		Genstar Financial	100	financial services	1,078	NA	1,388
		Genstar Land & RE Devel	100	real estate development			
Trade Development Bank Holding	Luxembourg	Republic NY Corp ¹	65	banking	1,068	67.9	7,707
Ahold NV ¹	Netherlands	Bi-Lo	100	supermarkets	725	NA	NA
		Giant Food Stores	100	supermarkets	300E	NA	NA
					1,025		
Bank of Tokyo Ltd ¹	Japan	Bank of Tokyo Trust	100	banking	527	9.2	3,973
		California First Bank ¹	79	banking	488	16.3	4,062
					1,015		
F Hoffman-La Roche & Co Ltd	Switzerland	Hoffman-La Roche	100	pharmaceuticals, chems	1,000E	NA	NA
Vroom & Dreesmann	Netherlands	Dillards Dept Stores ¹	52	retailing	593	16.3	344
		HJ Wilson Co ¹	21	retailing	403	12.7	321
					996		
Daimler-Benz Group	Germany	Freightliner Corp	100	automotive	665	NA	NA
		Euclid	100	automotive	266	NA	NA
					931		
Thyssen-Bornemisza NV	Netherlands	Indian Head	100	diversified manufacturer	900E	NA	NA
Saint-Gobain-Pont-à-Mousson ¹	France	CertainTeed Corp ¹	55	building supplies	892	-10.9	664
Standard Chartered Bank Group	UK	Union Bank	100	banking	891	29.4	6,895
Bell Canada	Canada						
Northern Telecom Ltd	Canada	Northern Telecom	100	telecommunications	877	NA	708
Canada Development Corp	Canada	Savin ¹	57	office equipment	439	-2.2	413
		Polysar Inc	100	petrochemicals	365	NA	185
		other companies	100	electronics, energy, life sciences	71	NA	381
					875		
Franz Haniel & Cie	Germany	Scrivner Inc	100	wholesale/retail foods, dept store	864	9.7	121

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66 Financière Cr�dit Suisse-First Boston	Switzerland	First Boston ¹	37%	investment banking	\$847	\$46.3	\$10,314
67 Bowater Corp Ltd ¹	UK	Bowater North America Catawba Newsprint Bowater Computer Forms	100 51 100	lumber, pulp & paper newsprint business forms	804	NA	69
68 General Accident Fire & Life Plc	UK	General Accident Ins Amer Camden Fire Assurance Penn Gen Insurance Potomac Ins of Illinois	100 100 100 100	insurance insurance insurance insurance	772	97.8	1,57
69 Natl Westminster Bank Plc	UK	Natl Bank North Amer	100	banking	768	12.8	5,96
70 Nova Husky Oil Ltd ¹	Canada Canada	Husky Oil Co	100	petroleum, charcoal, steel	767	7.1	62
71 Canadian Imperial Bank of Commerce	Canada	Canadian Imperial Bank of Commerce	100	banking	750E	NA	5,00
72 AB Electrolux	Sweden	Dometic Inc	100	appliances	733	10.4	42
73 Inco Ltd ¹	Canada	International Nickel Huntington Alloys other companies	100 100 100	metals metal products various businesses	705	NA	44
74 Fiat SpA ¹	Italy	Fiat-Allis Hesston Corp ¹	80 50	construction equip agricultural equip	422 280 702	-24.1 -4.8	29 16
74 United Biscuits Ltd	UK	Keebler Specialty Brands	100 43	baked goods spices, salad dressing	626 76 702	26.0 5.2	21 8
76 Davy Corp Plc	UK	Davy Inc	100	construction, engineering	700E	NA	23
76 Power Corp of Canada	Canada	Great West Life Ins	96	life insurance	700E	17.0E	1,76
78 Massey-Ferguson Ltd ¹	Canada	Massey-Ferguson Perkins Engines	100 100	farm & industrial mach diesel engines ²	606 92 698	NA NA	89 4
79 Barclays Bank Group Plc	UK	Barclays American Barclays Bank of NY Barclays Bank of Calif	100 100 100	financial services banking banking	429 250 679	13.0 NA NA	2,35 1,09 81
80 Beecham Group ¹	UK	Beecham Jovan	100 100	drugs, consumer prods cosmetics & fragrances	675E	NA	52
81 Rio Tinto-Zinc Plc ¹	UK	US Borax & Chemical Indal US	100 59	chemicals building products	400E 263 663E	NA NA	37 16
82 Sandoz Ltd	Switzerland	Sandoz United States Ex-Lax Pharmaceutical	100 100	food, drugs, seeds, chems health care	NA*	NA	N
83 IFI International SA	Luxembourg	Moog Automotive Chicago Rawhide River Cement Income International Hercules Cement	100 100 40 100 46	auto parts auto parts cement industrial components cement	650E	NA	N
84 Imetal	France	Copperweld ¹	66	steel, copper fabrication	617	37.2	41

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The 100 largest foreign investments in the U.S.

Foreign investor	Country	U.S. company	% owned	Industry	Revenue (millions)	Net income (millions)	Assets (millions)
85 Ivaco	Canada	Laclede Steel ¹	40%	steel	\$253	\$3.9	\$137
		Atlantic Steel	100	steel			
		Capital Wire & Fence	100	steel			
		Florida Wire & Cable	80	steel	353	NA	262
		National Wire Products	60	steel			
		New York Wire Mills	100	steel			
		Niagara Lockport Inds	100	paper machine clothing			
					606		
86 Nationale-Nederlanden NV	Netherlands	Life Ins Co of Georgia	100	insurance	254	30.4	1,093
		Peerless Insurance	82	insurance	148	6.4	200
		Security Life Denver	100	insurance	68	9.4	301
		Midwestern United Life	88	insurance	29	4.0	220
		Wisconsin National Life	100	insurance	34	3.4	140
		Netherlands Ins Co	100	insurance	20	1.4	21
		First Georgia Ins	100	insurance	37	3.1	70
					590		
87 Competrol BVI Ltd	Saudi Arabia	Donaldson, Lufkin & Jenrette ¹	24	brokerage	579	13.2	4,860
88 Johnson Matthey & Co Plc	UK	Johnson Matthey Inc	100	refining, metal fabrication			
		Johnson Matthey Jewelry	100	jewelry mfg			
		The Meyercord Co	100	printing, transfers	560	NA	NA
		Matthey Print Corp	100	transfers			
		Max Marx Color & Chem	100	chemicals			
		Catamore Co	100	jewelry mfg			
89 Olympia & York Developments Ltd	Canada	Landmark Land Co ¹	29	recreation	40	2.8	NA
		Abitibi Price Corp	94	forest products	194	NA	183
		Brinco	51	mining, energy	8	-0.1	19
		Royal Trustco	24	banking	49	2.2	390
		Trizec	37	property development	124	NA	NA
		Rouse ¹	21	property dev, banking	139	5.2	553
					554		
90 Allianz Versicherungs AG	Germany	Allianz of America	52	insurance	412	NA	1,780
		Munich Amer Reinsurance	45	insurance	106	7.8	290
		Munich Amer Reassurance	45	insurance	35	1.3	60
					553		
91 Imasco Ltd	Canada	Hardee's Food Systems	100	fast food	537	NA	310
		Shoppers Drug Mart	100	health & beauty products	13	NA	NA
		Tinder Box Intl Ltd	100	tobacco products			
					550		
92 Elf Aquitaine Group	France	Elf Aquitaine Inc	100	chemicals, oil, gas			
		Texasgulf	100	mining	539	NA	3,800
		other companies	33-75	energy, drilling, drugs, plastics			
93 Sobey Group	Canada	Hannaford Brothers ¹	23	food distribution	530	6.4	110
94 Empain-Schneider	France	Refinement Intl ¹	65	metals reclamation	317	4.1	200
		Phoenix Steel ¹	56	steel	207	0.9	150
					524		
95 TransCanada Pipelines ¹	Canada	Great Lakes Gas Transmission	50	gas pipeline	522	21.4	380
96 LM Ericsson Telefonaktiebolaget	Sweden	Anaconda-Ericsson	50	telecommun equipment	508	NA	450

¹Publicly traded in U.S. ²Jointly owned with Minerals & Resources. E: Estimate. NA: Not Available. *Sales estimated in this general area based on previously given data. Note: Some foreign investors listed own U.S. companies indirectly through companies in italics.



The 100 largest foreign investments in the U.S.

Foreign investor	Country	U.S. company	% owned	Industry	Revenue (millions)	Net income (millions)	Assets (millions)
Hawker Siddeley Group Plc¹	UK	Lister Diesels	100%	engine assembly	\$ 24	NA	\$15
		FASCO	100	electrical equipment	166E	NA	NA
		Onan	37	engines	245E	NA	NA
Carlton Inds	UK	KW Battery	100	industrial batteries	18E	NA	NA
Hawker Siddeley Canada¹	Canada	Am Sawmill Machinery	100	sawmill equip, pumps			
		B&K Machinery	100	machinery			
		Dosco Corp	100	mining equipment	55	NA	39
		Tree Farmer Equipment	100	forestry equipment			
					508E		
Babcock Intl Ltd¹	UK	ACCO/Babcock Inc	100	diversified mfg	497	NA	417
BBC Brown, Boveri & Cie	Switzerland	BBC Brown, Boveri	100	mechanical & electronic power equipment	479	NA	366
Hoesch AG¹	Germany						
Hoogovens	Netherlands						
Estel NV	Netherlands	Envirotech ¹	29	pollution controls	383	\$-56.0	332
		Beckley Coal Mining	25	mining	50E	NA	57E
		Roteck Inc	100	tools & machinery	40E	NA	25E
					473		

And the 25 runners-up

1 Steinberg Inc¹	Canada	Smitty's Super Valu	100%	supermarkets	\$450E	\$1.1E	\$126
2 Fujitsu Ltd¹	Japan	Amdahl ¹	21	computers	443	26.8	457
3 Willy Korf	Germany						
Coinvest BV¹	Germany						
Govt of Kuwait	Kuwait	Korf Industries	70	steel, technology	441	1.9	387
			30				
4 L'Air Liquide¹	France	Liquid Air Corp ¹	61	industrial gases	428	31.5	484
5 AB SKF	Sweden	SKF Industries	96	bearings, auto parts	425	NA	NA
6 Otto Versand	Germany	Spiegel Inc	100	catalog retailing	423	1.7	441
7 Tate & Lyle Plc	UK	Tate & Lyle Inc	100	sugar refining, food	402	NA	145
Redpath Inds Plc	UK	Multifittings USA	100	pipes & fittings	10	NA	14
		CertainTeed/Daymond	50	drainage pipe			
					412		
8 AGO Verzekeringen NV	Netherlands	Life Investors ¹	57	insurance	405	14.3	1,067
9 Sony Corp¹	Japan	Sony Corp of America	100	consumer electronics	400E	NA	NA
10 Canadian Natl Railways	Canada	Grand Trunk Corp	100	railroad	391	17.2	534
11 Cadbury Schweppes Plc¹	UK	Cadbury Schweppes USA	100	food	373	NA	NA
12 Solvay & Cie SA	Belgium	Soltex Polymer	100	chemicals	370E	NA	NA
13 DSM NV	Netherlands	Nipro Inc	100	chemicals	300E	NA	450
		Synres Chemical Corp	100	chemicals	30E	NA	10E
		Sheffield Plastics Inc	100	plastics	20E	NA	5E
					350E		
14 Matsushita Electric Industrial Co¹	Japan	Matsushita Electric Corp of America	100	electronics	350E	NA	NA
15 Olsen, Lehmkuhl families	Norway	Timex	100	watches	350E	NA	NA

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And the 25 runners-up

Foreign investor	Country	U.S. company	% owned	Industry	Revenue (millions)	Net income (millions)	Assets (millions)
116 Lloyds Bank Group	UK	Lloyds Bank California	100%	banking	\$347	\$3.5	\$2,741
117 Ghaith Pharaon	Saudi Arabia	Sam P Wallace ¹	65	construction	337	0.4	103
118 Sun Life Assur Co of Canada	Canada	Sun Life Assurance Suncan Equity Services Suncan Benefit Services	100 100 100	insurance financial services financial services	335	NA	2,235
119 AMEV NV	Netherlands	Time Insurance American Security Ins United Family Life other companies	100 100 100 100	insurance insurance insurance finance, venture capital	158 104 51 18 331	11 11 7 2	272 219 198 53
120 Lafarge Coppée Canada Cement Lafarge	France Canada	General Portland	100	cement	326	9.1	324
121 S Pearson & Son Plc	UK	Midhurst Corp Pearson Longman Cedar Point ¹	100 100 25	oil services & equipment publishing amusement parks	323	39.0	144
122 Cominco Ltd ¹	Canada	Cominco American Hawaiian Western Steel	100 51	mining, fertilizer, electronics steel	297 16 313	NA NA	187 6
123 Sanyo Electric Co Ltd ¹	Japan	Sanyo Manufacturing Sanyo E&E	94 48	electronics, appliances electronics, appliances	277 34 311	1.0 -1.0	99 3
124 Intl Thomson Org Ltd	Canada	International Thomson	100	publishing, travel, natural resources	310	NA	41
125 Promodes	France	Red Food Stores	100	supermarkets	305	NA	NA

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The 100 largest U.S. multinationals

Rank	Company	Foreign revenue (millions)	Total revenue (millions)	Foreign as % of total	Foreign operating profit* (millions)	Total operating profit* (millions)	Foreign as % of total	Foreign assets (millions)	Total assets (millions)	Foreign as % of total
1	Exxon	\$75,795	\$108,108	70.1%	\$3,076	\$5,423	56.7%	\$32,925	\$62,931	52.3
2	Mobil	41,184 ¹	65,458 ¹	62.9	1,536 ²	2,433 ²	63.1	18,187	34,776	52.3
3	Texaco	38,599	57,628	67.0	1,379 ²	2,310 ²	59.7	15,216	27,489	55.4
4	Standard Oil Calif	23,843	44,224	53.9	949 ²	2,380 ²	39.9	10,776	23,655	45.6
5	Ford Motor	18,508	38,247	48.4	135 ²	-1,060 ²	P/D	14,398	23,021	62.5
6	General Motors	15,676	62,699	25.0	-395 ²	333 ²	D/P	11,617	38,920	29.8
7	IBM	13,982	29,070	48.1	1,228 ²	3,308 ²	37.1	14,149	29,586	47.8
8	Phibro-Salomon	13,388	25,109	53.3	521	535	97.4	3,530	5,788	61.0
9	Citicorp	11,339	18,275	62.0	287 ²	531 ²	54.0	70,177 ⁴	115,895 ⁴	60.6
10	Intl Tel & Tel ³	10,973	23,197	47.3	926	1,576	58.8	10,914	28,957	37.7

*Unless otherwise indicated. ¹Includes other income. ²Net income. ³Includes proportionate interest in unconsolidated subsidiaries or investments. ⁴Average assets. ⁵Income before security gains or losses. ⁶Excluding equity in FW Woolworth & Co Ltd. ⁷Profit before interest and after taxes. ⁸Pretax income. ⁹Excludes international transportation. ¹⁰Estimate. ¹¹Excludes Canada. ¹²From continuing operations. ¹³Income before equity in income of unconsolidated companies and minority interest. P/D: Profit over deficit. NA: Not available. D/P: Deficit over profit.

The 100 largest U.S. multinationals

Rank	Company	Foreign revenue (millions)	Total revenue (millions)	Foreign as % of total	Foreign operating profit* (millions)	Total operating profit* (millions)	Foreign as % of total	Foreign assets (millions)	Total assets (millions)	Foreign as % of total
	Gulf Oil	\$10,363	\$28,252	36.7%	\$ 578 ²	\$ 1,231 ²	47.0%	\$ 7,337	\$20,429	35.9%
	BankAmerica	7,954	15,085	52.7	245 ²	445 ²	55.1	48,373 ¹	112,902 ⁴	42.8
	Chase Manhattan	6,927	10,651	65.0	247 ²	412 ²	60.0	44,758	77,839	57.5
	E I Du Pont de Nemours	6,716	22,790	29.5	249 ²	1,467 ²	17.0	5,722	23,829	24.0
	General Electric	5,824 ¹	27,854 ¹	20.9	296	1,652	17.9	5,089	20,942	24.3
	Dow Chemical	5,691	11,873	47.9	350	916	38.2	5,599	12,496	44.8
	Standard Oil Indiana	4,995 ¹	30,372 ¹	16.4	678 ²	1,992 ²	34.0	6,438	22,916	28.1
	Occidental Petroleum	4,856 ¹	15,335 ¹	31.7	1,778	2,227	79.8	2,551	8,075	31.6
	J P Morgan	4,291	6,778	63.3	234 ²	348 ²	67.4	30,278	53,522	56.6
	Safeway Stores	4,088	16,580	24.7	87 ²	115 ²	76.4	1,050	3,690	28.4
	Sun Co	4,083 ¹	15,967 ¹	25.6	8 ²	1,281 ²	0.6	2,223	11,822	18.8
	Manufacturers Hanover	3,982	7,476	53.3	120 ²	252 ²	47.6	30,037	59,109	50.8
	Eastman Kodak	3,929	10,337	38.0	448	2,060	21.7	2,984	9,439	31.6
	Xerox	3,870	8,691	44.5	252 ²	598 ²	42.2	3,365	7,674	43.8
	Procter & Gamble	3,750	11,416	32.8	130 ²	668 ²	19.5	1,769	6,961	25.4
	Goodyear	3,748	9,153	41.0	296	772	38.3	2,450	5,354	45.8
	Phillips Petroleum	3,402	15,966	21.3	1,411	2,762	51.1	2,459	11,264	21.8
	F W Woolworth ³	3,395	8,310	40.9	125 ⁶	257 ⁶	48.6	1,827	3,499	52.2
	Union Carbide	3,189	10,168	31.4	325	1,177	27.6	2,990	10,423	28.7
	Colgate-Palmolive	3,091	5,261	58.7	289	457	63.2	1,235	2,631	46.9
	United Technologies	3,019	13,668	22.1	190 ²	458 ²	41.4	2,150	7,555	28.5
	Dart & Kraft	2,911	10,211	28.5	290	863	33.6	1,458	5,054	28.9
	Tenneco	2,909	15,462	18.8	282	1,851	15.2	2,951	16,808	17.6
	CPC International	2,797	4,343	64.4	266	473	56.3	1,597	2,462	64.9
	Chemical New York	2,671	5,658	47.2	74 ²	215 ²	34.2	17,501	44,917	39.0
	Pan Am World Airways	2,660	3,797	70.0	-136	-353	38.7	NA	2,963	NA
	R J Reynolds Inds	2,657	9,766	27.2	106 ⁹	1,567	6.8	1,219 ⁹	8,096	15.1
	Coca-Cola	2,650	5,889	45.0	580	918	63.2	1,420	3,565	39.8
	Bankers Trust New York	2,562	4,656	55.0	116 ²	188 ²	6.2	17,535	34,213	51.3
	Minn Mining & Mfg	2,555	6,508	39.3	388	1,169	33.2	1,733	5,422	32.0
	Continental Illinois	2,378	6,287	37.8	73 ²	254 ²	28.7	19,105 ¹⁰	46,972	40.7
	Johnson & Johnson	2,373	5,399	44.0	406	838	48.4	1,635	3,820	42.8
	Atlantic Richfield	2,331	27,798	83.9	37 ²	1,671 ²	2.2	945	19,733	4.8
	Getty Oil	2,300	12,887	17.8	1,051	2,276	46.2	1,945	9,536	20.4
	Chrysler	2,183	10,822	20.2	6.9 ²	-476 ²	P/D	1,594	6,270	25.4
	International Harvester	2,133	7,041	30.3	32	60	53.3	1,269	5,346	23.7
	Sperry	2,131	5,427	39.3	230	749	30.7	2,169	5,243	41.4
	Halliburton	2,104	8,508	24.7	272	1,181	23.0	1,722	5,580	30.9
	First Chicago	2,090	4,326	48.3	24 ²	119 ²	20.3	14,045	35,562	39.5
	Beatrice Foods	2,085	9,024	23.1	164	724	22.7	972	4,744	20.5
	Monsanto	2,074	6,948	29.9	104	754	13.8	1,556	6,069	25.6
	General Foods	2,041	6,601	30.9	100	532	18.8	955	3,130	30.5
	General Tel & Elec ¹²	2,030	11,026	18.4	89 ²	722 ²	12.3	3,316	21,113	15.7
	Sears, Roebuck ³	2,008	29,260	6.9	16 ²	592 ²	2.7	1,441	34,922	4.1
	Nabisco Brands	1,982	5,819	34.1	177	627	28.2	1,211	3,429	35.3
	American Express	1,937	7,211	26.9	135	835	16.2	8,634	25,103	34.4
	Fluor	1,917	6,073	31.6	104	370	28.1	909	4,427	20.5
	Trans World	1,883	5,265	35.8	140	165	84.8	1,182	3,397	34.8
	Pfizer	1,847	3,250	56.8	319	524	60.8	1,725	3,647	47.3
	Union Oil California	1,841 ¹	10,938 ¹	16.8	36 ²	791 ²	4.6	1,013	7,593	13.3
	American Brands ³	1,815	4,541	40.0	176	784	22.4	1,486	6,260	23.7
	NCR	1,789	3,433	52.1	159	437	36.3	1,542	3,387	45.5
	Hewlett-Packard	1,725	3,578	48.2	223 ²	580 ²	38.4	825	2,758	29.9
	Caterpillar Tractor	1,704	9,155	18.6	138	1,159	11.9	1,253	7,285	17.2
	First National Boston	1,671	2,948	56.7	41 ²	119 ²	34.5	7,107 ⁴	15,931 ⁴	44.6

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The 100 largest U.S. multinationals

Rank	Company	Foreign revenue (millions)	Total revenue (millions)	Foreign as % of total	Foreign operating profit* (millions)	Total operating profit* (millions)	Foreign as % of total	Foreign assets (millions)	Total assets (millions)	Foreign as % of total
66	PepsiCo	\$1,595	\$7,027	22.7%	\$134	\$708	18.8%	1,248	\$4,057	30.8
67	Allied Corp	1,564	6,407	24.4	759	1,071	70.9	1,279	5,344	23.9
68	Honeywell	1,552	5,351	29.0	129	499	25.8	1,203	4,331	27.8
69	American Intl Group	1,543	3,155	48.9	257	441	58.3	3,591	7,957	45.1
70	Deere	1,534	5,447	28.2	20	522	3.8	1,279	5,684	22.3
71	Firestone	1,521	4,361	34.9	107	258	41.5	1,047	3,018	34.7
72	K mart ³	1,514	17,393	8.7	25 ²	220 ²	11.2	549	7,128	7.7
73	Continental Group ³	1,453	5,795	25.1	73	405	17.9	719	5,610	12.8
74	Warner-Lambert	1,441	3,380	42.6	277	580	47.8	1,094	2,963	36.9
75	Consolidated Foods	1,435	5,614	25.6	123 ⁸	283 ⁸	43.6	777	2,277	34.1
76	HJ Heinz	1,426	3,569	39.9	117	338	34.6	828	2,074	39.9
77	RCA ³	1,410	8,998	15.7	19 ⁸	98 ⁸	19.2	987	13,210	7.4
78	WR Grace	1,389	6,521	21.3	198 ⁸	803 ⁸	24.7	892	5,022	17.8
79	American Home Products	1,387	4,131	33.6	238	960	24.7	746	2,589	28.8
80	Gulf & Western Inds ³	1,375	7,379	18.6	223	512	43.5	1,900 ¹⁰	12,800 ¹⁰	14.8
81	Burroughs	1,368 ¹	3,405 ¹	40.2	199	448	44.3	1,640	4,439	36.7
82	Merck	1,367	2,930	46.7	219	579	37.8	1,310	3,310	39.9
83	Irving Bank	1,364	2,390	57.1	62 ²	97 ²	63.9	9,362	18,227	51.4
84	Texas Instruments	1,340	4,206	31.9	100 ²	108 ²	92.6	799	2,310	34.6
85	Gillette	1,338 ¹¹	2,334	57.3	158 ¹¹	312	50.6	1,002 ¹¹	1,759	57.0
86	Scott Paper ³	1,335	3,645	36.6	36 ²	133 ²	27.0	1,277	3,576	35.7
87	Bendix	1,308	4,425	29.6	128	447	28.7	703	3,219	21.8
88	American Cyanamid	1,276	3,649	35.0	91 ²	197 ²	46.1	831	3,065	27.1
89	TRW	1,262	5,285	23.9	138	489	28.1	910	3,127	29.1
90	Bristol-Myers	1,257	3,497	36.0	193	600	32.2	869	2,489	34.9
91	Ralston Purina	1,253	5,225	24.0	37	409	9.0	440	2,219	19.8
92	Digital Equipment	1,252	3,198	39.1	272	536	50.7	1,169	3,456	33.8
93	Avon Products	1,251	2,614	47.9	165	403	40.9	626	1,568	40.0
94	Westinghouse Electric	1,215	9,368	13.0	117	729	16.0	801	8,316	9.6
95	Motorola	1,213	3,336	36.4	58	339	17.0	603	2,399	25.3
96	Litton Industries	1,212	4,943	24.5	97	519	18.7	428	3,688	11.6
97	Marine Midland Banks	1,191	2,484	47.9	33 ²	81 ²	40.8	8,173	18,682	43.8
98	Philip Morris	1,166	8,307	14.0	104	1,369	7.6	1,505	9,245	16.3
99	Singer	1,150	2,834	40.6	64	145	44.2	731	1,573	46.5
100	Ingersoll-Rand	1,149	3,378	34.0	126	430	29.3	925	2,678	34.6

And the 25 runners-up

101	American Standard	\$1,106	\$2,471	44.8%	\$137	\$242	56.6%	\$ 642	\$ 1,574	40.8
102	Carnation	1,080	3,354	32.2	73	300	24.5	407	1,645	24.8
103	United Brands	1,067 ¹¹	4,058	26.3	25 ¹¹	83	30.4	555 ¹¹	1,309	42.4
104	Dresser Industries	1,063	4,615	23.0	59	570	10.3	808	3,273	24.4
105	Murphy Oil	1,060 ¹	2,543 ¹	41.7	98 ²	163 ²	60.1	1,478	2,777	53.2
106	Eli Lilly	1,059	2,773	38.2	78 ²	375 ²	20.9	982	2,902	33.8
107	Kimberly-Clark	1,054	2,886	36.5	95	294	32.4	1,040	2,414	43.1
108	City Investing	1,042	5,797	18.0	127	421	30.2	961	8,522	11.3
109	Quaker Oats	1,032	2,600	39.7	82	239	34.5	528	1,454	36.3
110	Security Pacific	1,023	4,219	24.2	53 ²	206 ²	25.5	8,571	32,999	26.0
111	Hercules ³	1,008	3,145	32.0	79	235	33.6	829	2,336	35.5
112	Control Data ³	1,007	4,163	24.2	66	209	31.6	694	6,905	10.0
113	Signal Cos	963	5,407	17.8	-4 ¹³	214 ¹³	D/P	523	3,678	14.2
114	Anderson, Clayton	956	1,930	49.5	92	166	55.5	364	895	40.7
115	Levi Strauss	942	2,851	33.0	108	401	26.9	500	1,605	31.3

*Unless otherwise indicated. ¹Includes other income. ²Net income. ³Includes proportionate interest in unconsolidated subsidiaries or investments.
⁴Average assets. ⁵Income before security gains or losses. ⁶Excluding equity in FW Woolworth & Co Ltd. ⁷Profit before interest and after taxes. ⁸Pretax income.
⁹Excludes international transportation. ¹⁰Estimate. ¹¹Excludes Canada. ¹²From continuing operations. ¹³Income before equity in income of unconsolidated companies and minority interest. P/D: Profit over deficit. NA: Not available. D/P: Deficit over profit.

And the 25 runners-up

Company	Foreign revenue (millions)	Total revenue (millions)	Foreign as % of total	Foreign operating profit* (millions)	Total operating profit* (millions)	Foreign as % of total	Foreign assets (millions)	Total assets (millions)	Foreign as % of total
Black & Decker	\$905	\$1,431	63.2%	\$ 53 ²	\$ 66 ²	80.2%	\$666	\$1,165	57.2%
Armco	897	7,735	11.6	117	639	18.3	586	6,682	8.8
Schering-Plough	889	1,809	49.1	115	277	41.5	805	2,286	35.2
Kellogg	867	2,321	37.4	55 ²	205 ²	26.8	506	1,279	39.6
Borg-Warner	848	2,737	31.0	25	206	12.1	434	2,191	19.8
Reylon	842 ¹¹	2,366	35.6	69 ¹¹	360	19.1	895 ¹¹	2,317	38.6
Foster Wheeler	836	1,674	49.9	27	83	31.8	387	959	40.4
Sterling Drug	829	1,793	46.2	106	253	42.1	635	1,265	50.2
SmithKline Beckman	823	1,985	41.5	224	513	43.7	645	1,883	34.3
Norton Simon	815	3,144	25.9	50 ⁸	171 ⁸	29.2	661	2,382	27.7

unless otherwise indicated. ¹Includes other income. ²Net income. ³Includes proportionate interest in unconsolidated subsidiaries or investments. ⁴Average assets. ⁵Income before security gains or losses. ⁶Excluding equity in FW Woolworth & Co Ltd. ⁷Profit before interest and after taxes. ⁸Pretax income. ⁹Excludes international transportation. ¹⁰Estimate. ¹¹Excludes Canada. ¹²From continuing operations. ¹³Income before equity in income of unconsolidated companies and minority interest. P/D: Profit over deficit. NA: Not available. D/P: Deficit over profit.

The 100 largest foreign companies



Company	Fiscal year-end	Revenue ¹ (millions)	Net income (millions)	Assets (millions)	Market value of common ² (millions)	Corporate headquarters	Industry	Employees (thousands)
Royal Dutch/Shell Group	Dec	\$82,337	\$3,644	\$65,017	\$17,868 ³	Netherlands/UK	energy	166.0
Mitsui & Co Ltd	Mar	68,709	84	23,403	1,539	Tokyo, Japan	wholesaler	13.0
Mitsubishi Corp	Mar	68,271	189	23,258	3,698	Tokyo, Japan	wholesaler	14.2
British Petroleum Co Plc	Dec	52,229	2,064	40,764	10,953	London, UK	energy	153.3
C Itoh & Co Ltd	Mar	51,502	58	16,409	1,355	Tokyo, Japan	wholesaler	10.0
Marubeni Corp	Mar	47,404	31	16,245	1,295	Osaka, Japan	wholesaler	14.0
Sumitomo Corp	Mar	44,931	98	11,190	1,422	Osaka, Japan	wholesaler	10.0
Nissho-Iwai Co Ltd	Mar	32,124	-14	9,811	635	Tokyo, Japan	wholesaler	8.0
ENI-Ente Nazionale Idrocarburi	Dec	29,103	-341	26,289 ⁴	none ⁵	Rome, Italy	energy	122.8
IRI-Istituto Ricostruzione Industriale	Dec	26,400E	-2,240	NA	none ⁵	Rome, Italy	multicompany	550.0
Unilever	Dec	24,109	801	12,507	4,052 ³	Netherlands/UK	consumer goods	292.0
TOTAL Group (Française des Pétroles)	Dec	22,654	175	13,830	546	Paris, France	energy	47.3
VEBA Group	Dec	20,885	208	13,416 ⁴	1,898	Duesseldorf, Ger	energy	82.9
Kuwait Petroleum Corp	June	19,800E	1,600E	8,858	none ⁵	Safat, Kuwait	energy	12.6
Petróleos de Venezuela SA	Dec	19,659	3,316	20,714	none ⁵	Caracas, Venezuela	energy	42.2
Fiat Group	Dec	19,381	85	NA	605	Turin, Italy	automotive	314.8
Elf Aquitaine Group	Dec	19,215	678	20,882	2,391	Paris, France	energy	58.6
Petróleos Mexicanos	Dec	18,996	18	45,294	none ⁵	Mexico City, Mex	energy	110.0
Petróleo Brasileiro SA	Dec	18,946	831	14,036	697	Rio de Janeiro, Brazil	energy	66.2
Nippon Tel & Tel Public Corp	Mar	18,192	1,786	44,830	none ⁵	Tokyo, Japan	telecommun	327.0
Deutsche Bundespost	Dec	17,467	1,023	32,554	none ⁵	Bonn, Germany	communications	483.4
Toyota Motor Sales Co	Mar	17,009	145	5,766	1,230	Nagoya, Japan	wholesaler	5.2 ⁶
NV Philips Lamp	Dec	16,997	143 ⁷	17,310 ⁷	1,471	Eindhoven, Neth	elec equipment	348.1
Nissan Motor Co Ltd	Mar	16,794	491	11,722	6,427	Tokyo, Japan	automotive	56.3 ⁶
Volkswagen Group	Dec	16,760	99	11,202	1,398	Wolfsburg, Ger	automotive	246.9

Revenue is for "group" or consolidated and excludes excise taxes and duties. ²As of Dec. 31, 1981. ³Combined market value. ⁴Figures for year ended Dec. 31, 1980. ⁵Government, privately owned or mutual. ⁶Not fully consolidated. ⁷Based on current cost accounting. NA: Not available. E: Estimated. General notes: Revenue and net income are converted at an average rate of exchange for the fiscal year; assets are converted at a rate of exchange at fiscal year-end. Figures for 1981 were used for those March fiscal-year companies for which 1982 results were not available at press time.

The 100 largest foreign companies

Company	Fiscal year-end	Revenue ¹ (millions)	Net income (millions)	Assets (millions)	Market value of common ² (millions)	Corporate headquarters	Industry	Employees (thousands)
26 Nippon Oil Co Ltd	Mar	\$16,637	\$297	\$7,334	\$3,940	Tokyo, Japan	energy	11
27 Postes et Telecommunications	Dec	16,600E	NA	105,328	none ⁵	Paris, France	communications	475
28 The Electricity Council	Mar	16,488	-638	72,581 ⁷	none ⁵	London, UK	utility	154
29 Toyota Motor Co Ltd ⁶	June	16,379	620	8,050	9,154	Toyota City, Japan	automotive	48
30 Daimler-Benz Group	Dec	16,222	367	8,911	3,872	Stuttgart, Germany	automotive	188
31 Renault Group	Dec	16,137	-124	11,634	none ⁵	Boul-Billancourt, Fr	automotive	215
32 Toyo Menka Kaisha Ltd	Mar	15,912	12	5,336	293	Osaka, Japan	wholesaler	4
33 Siemens Group	Sept	15,879	206	14,655	3,429	Munich, Germany	elec equipment	338
34 Matsushita Electric Industrial Co	Nov	15,704	713	13,749	8,654	Osaka, Japan	elec equipment	117
35 Hitachi Ltd	Mar	15,459	594	16,184	8,197	Tokyo, Japan	elec equipment	151
36 Hoechst Group	Dec	15,237	157	11,584	2,243	Frankfurt, Germany	chemicals	184
37 BASF Group	Dec	15,145	162	8,819	2,459	Ludwigshafen, Ger	chemicals	116
38 Nippon Steel Corp	Mar	15,138	341	16,767	5,318	Tokyo, Japan	steel	69
39 Bayer Group	Dec	14,930	224	12,758	2,581	Leverkusen, Ger	chemicals	181
40 Kanematsu-Gosho Ltd	Mar	14,676	2	5,639	168	Tokyo, Japan	wholesaler	3
41 Tokyo Electric Power Co ⁶	Mar	14,429	597	31,230	5,528	Tokyo, Japan	utility	40
42 Nestlé	Dec	14,120	491	9,886	3,736	Vevey, Switzerland	food processing	145
43 Electricité de France	Dec	13,727	-846	42,797	none ⁵	Paris, France	utility	114
44 Nichimen Co Ltd	Mar	13,534	18	4,971	232	Osaka, Japan	wholesaler	3
45 Barclays Bank Group	Dec	13,486	684	93,019	2,438	London, UK	banking	130
46 Imperial Chemical Inds Plc	Dec	13,346	377	13,619	3,309	London, UK	chemicals	132
47 Groupe Peugeot SA	Dec	13,267E	-368E	10,488E	354	Paris, France	automotive	218
48 Idemitsu Kosan Co Ltd	Mar	13,206	67	10,312	none ⁵	Tokyo, Japan	energy	9
49 Banque Nationale de Paris Group	Dec	13,204	203	106,775	none ⁵	Paris, France	banking	58
50 Crédit Lyonnais Group	Dec	13,135	141	93,716	none ⁵	Paris, France	banking	45
51 Thyssen Group	Sept	12,941	-32	7,804	794	Duisberg, Germany	steel	149
52 Mitsubishi Heavy Ind Ltd	Mar	12,390	102	17,796	2,920	Tokyo, Japan	indl machinery	95
53 National Westminster Bank Plc	Dec	11,756	874	82,624	1,824	London, UK	banking	84
54 Deutsche Bundesbahn	Dec	11,699	-1,938	42,144 ⁴	none ⁵	Frankfurt, Germany	transportation	340
55 CAMPSA	Dec	11,664	32	2,567	40	Madrid, Spain	energy	9
56 British National Oil Co	Dec	11,664	155	2,547	none ⁵	Glasgow, Scotland	energy	2
57 Nippon Life Insurance Co	Mar	11,449	1,791	29,611	none ⁵	Osaka, Japan	insurance	18
58 INI-Instituto Nacional de Industria	Dec	11,374	-433	24,218	none ⁵	Madrid, Spain	multicompany	249
59 National Iranian Oil Co	Dec	11,000E	NA	NA	none ⁵	Tehran, Iran	energy	N
60 British Telecom	Mar	10,659	423	21,361	none ⁵	London, UK	telecommun	246
61 Cie Générale d'Electricité	Dec	10,426	NA	13,077 ⁴	none ⁵	Paris, France	elec equipment	180
62 B.A.T Industries Plc	Dec	10,400E	773	9,517	2,462	London, UK	multicompany	169
63 NV Nederlandse Gasunie	Dec	10,394	32	3,554	none ⁵	Groningen, Neth	energy	1
64 OIAG-Osterreichische Industrie Verwaltungen AG	Dec	10,365	0	4,145	none ⁵	Vienna, Austria	metals	112
65 ENEL	Dec	10,312	-1,952	23,653	none ⁵	Rome, Italy	utility	117
66 Canadian Pacific Ltd	Dec	10,290	406	13,770	2,530	Montreal, Canada	multicompany	129
67 Tengelmann Group	June	10,200E	NA	NA	none ⁵	Muelheim, Ger	retailer	90
68 RWE Group	June	10,163	217	10,091	1,746	Essen Germany	energy	69
69 Société Générale Group	Dec	10,133	167	87,170	none ⁵	Paris, France	banking	45
70 British Gas Corp	Mar	10,053	365 ⁷	24,491 ⁷	none ⁵	London, UK	utility	106
71 National Coal Board	Mar	9,798	-484	9,038	none ⁵	London, UK	energy	296
72 Toshiba Corp	Mar	9,663	227	9,761	4,282	Kawasaki, Japan	elec equipment	99
73 Midland Bank Group	Dec	9,524	383	78,256	1,103	London, UK	banking	82
74 Volvo Group	Dec	9,483	159	6,578	726	Göteborg, Sweden	automotive	76
75 Royal Bank of Canada	Oct	9,390	399	70,950	1,887	Montreal, Canada	banking	38

¹Revenue is for "group" or consolidated and excludes excise taxes and duties. ²As of Dec. 31, 1981. ³Combined market value. ⁴Figures for year ended Dec. 31, 1980.

⁵Government, privately owned or mutual. ⁶Not fully consolidated. ⁷Based on current cost accounting. NA: Not available. E: Estimated

General notes: Revenue and net income are converted at an average rate of exchange for the fiscal year; assets are converted at a rate of exchange at fiscal year-end. Figures for 1981 were used for those March fiscal-year companies for which 1982 results were not available at press time

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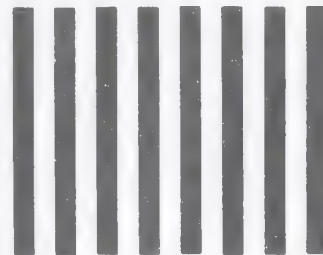
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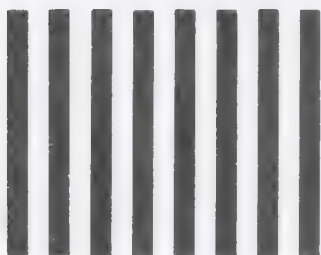
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The 100 largest foreign companies



Company	Fiscal year-end	Revenue ¹ (millions)	Net income (millions)	Assets (millions)	Market value of common ² (millions)	Corporate headquarters	Industry	Employees (thousands)
76 St-Gobain-Pont-à-Mousson	Dec	\$9,352	\$ 81	\$9,399	none ⁵	Paris, France	building prods	135.6
77 Petrofina SA	Dec	9,208	283	6,262	\$1,670	Brussels, Belgium	energy	21.0
78 Deutsche Bank Group	Dec	9,071	176	85,334	2,870	Frankfurt, Germany	banking	44.8
79 Honda Motor Co Ltd	Feb	8,375	292	4,946	2,675	Tokyo, Japan	automotive	42.4
80 Gutehoffnungshütte Group	June	8,308	44 ⁶	4,919 ⁶	667	Oberhausen, Ger	industrial equip	86.9
81 Kansai Electric Power Co	Mar	8,162	237	15,502	3,108	Osaka, Japan	utility	24.1
82 General Electric Co Ltd	Mar	8,102	700	7,587	8,637	London, UK	elec equipment	193.0
83 Ruhrkohle	Dec	8,062	NA	5,693	none ⁵	Essen, Germany	mining	136.6
84 Le Groupe Thomson	Dec	8,023	-33	8,791	none ⁵	Paris, France	elec equipment	130.0
85 Banco do Brasil	Dec	7,957	1,331	65,077	1,023	Brasilia, Brazil	banking	99.8
86 Montedison Group	Dec	7,853	-545	7,649	272	Milan, Italy	chemicals	94.2
87 Bank Hapoalim BM	Dec	7,753	139	19,069	1,406	Tel Aviv, Israel	banking	9.7
88 Crédit Agricole	Dec	7,744 ⁶	265	97,773	none ⁵	Paris, France	banking	68.5
89 Lloyds Bank Group	Dec	7,722	515	52,777	1,458	London, UK	banking	66.0
90 Canadian Imperial Bank of Commerce	Oct	7,704	267	54,607	961	Toronto, Canada	banking	36.7
91 Suez Group	Dec	7,661	172	57,052	none ⁵	Paris, France	banking	37.3
92 Pechiney Ugine Kuhlmann	Dec	7,541	-322	7,586 ⁴	none ⁵	Paris, France	metals	86.1
93 Paribas Group	Dec	7,493	127	50,108	none ⁵	Paris, France	banking	25.2
94 NV DSM	Dec	7,344	40	4,082	none ⁵	Heerlen, Neth	chemicals	30.0
95 Bank of Montreal	Oct	7,318	294	51,844	1,165	Montreal, Canada	banking	28.6
96 Maruzen Oil Co Ltd	Mar	7,300E	-120	5,357	449	Osaka, Japan	energy	4.5 ⁶
97 Indian Oil Corp Ltd	Mar	7,255	102	NA	none ⁵	Bombay, India	energy	20.6
98 Dai-ichi Kangyo Bank	Mar	7,144	130	95,724	5,020	Tokyo, Japan	banking	23.8 ⁶
99 SNCF	Dec	7,000	-372	16,204	none ⁵	Paris, France	transportation	249.0
100 CIBA-GEIGY Group	Dec	6,923	268	9,771	2,186	Basle, Switzerland	chemicals	80.2

And the 25 runners-up

101 British Steel Corp	Mar	\$6,914	\$-1,563	\$7,677	none ⁵	London, UK	steel	120.9
102 Chubu Electric Power ⁶	Mar	6,857	219	10,288	\$2,525	Nagoya, Japan	utility	19.2
103 Mannesmann Group	Dec	6,827	115	4,716	1,297	Duesseldorf, Ger	industrial equip	106.7
104 Nippon Kokan KK	Mar	6,774	169	11,523	2,632	Tokyo, Japan	steel	34.0 ⁶
105 Czarnikow Group	Sept	6,726	10	143,255	none ⁵	London, UK	commod broker	0.7 ⁶
106 Hyundai Group	Dec	6,700	35E	NA	none ⁵	Seoul, Korea	multicompany	126.0E
107 Rhône-Poulenc Group	Dec	6,611	-62	5,810	none ⁵	Paris, France	chemicals	89.4
108 Générale Occidentale	Mar	6,610	51	1,706	255	Paris, France	multicompany	56.0
109 Empain-Schneider Group	Dec	6,569	-63	10,338	43	Paris, France	industrial equip	107.0
110 AEG-Telefunken Group	Dec	6,565	4	4,792	242	Frankfurt, Germany	elec equipment	123.6
111 Fried. Krupp Group	Dec	6,566	NA	4,659	none ⁵	Essen, Germany	steel	82.2
112 Sumitomo Metal Inds Ltd	Mar	6,260	223	9,377	2,745	Osaka, Japan	steel	30.1 ⁶
113 Peninsular & Oriental Steam Navigation Co	Dec	6,231	47	2,419	347	London, UK	multicompany	20.2
114 George Weston Ltd	Dec	6,196	73	1,601	346	Toronto, Canada	food distribution	60.8
115 Toa Nenryo Kogyo	Dec	6,181	72	3,613	1,630	Tokyo, Japan	energy	3.9
116 Bell Canada	Dec	6,164	467	10,500	2,881	Montreal, Canada	telecommun	101.6
117 Mitsubishi Electric Corp	Mar	6,161	158	5,502	2,294	Tokyo, Japan	elec equipment	47.9 ⁶
118 Chinese Petroleum Corp ⁶	Dec	6,151	64	3,878	none ⁵	Taipei, Taiwan	energy	20.0
119 Rio Tinto-Zinc Corp Plc	Dec	6,126	378	9,022	2,131	London, UK	metals	65.8
120 Grand Metropolitan Plc	Sept	6,040	324	5,362	1,870	London, UK	multicompany	131.7
121 Mitsubishi Bank Ltd	Mar	6,039	133	82,178	4,933	Tokyo, Japan	banking	16.4
122 Sumitomo Bank Ltd	Mar	6,034	147	81,395	4,964	Osaka, Japan	banking	16.3 ⁶
123 Nippon Mining Co Ltd	Mar	6,015	56	4,379	694	Tokyo, Japan	energy	5.9
124 Dresdner Bank	Dec	5,972	72	58,312	1,157	Frankfurt, Germany	banking	31.1
125 Fuji Bank Ltd ⁶	Mar	5,959	151	81,759	4,964	Tokyo, Japan	banking	18.4

¹Revenue is for "group" or consolidated and excludes excise taxes and duties. ²As of Dec. 31, 1981. ³Combined market value. ⁴Figures for year ended Dec. 31, 1980

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Not for the first time, Americans are pessimistic about Western Europe. Is the current round of pessimism justified?

The moment of truth

By Richard Phalon

THERE IS A WIDESPREAD feeling in America—rightly or wrongly—that European industry has fallen hopelessly behind, that it is out of touch, by and large, with world realities. The economies of both the U.S. and Western Europe share common problems: Japanese competition, obsolete plants, relatively low labor productivity. The feeling, on this side of the Atlantic at least, is that Americans are facing the realities squarely with Reaganomics and Volckernomics, while Europeans are not.

Some U.S. money men, with a stake in the Continent, believe that many European producers have fallen so far behind in technology that they would be much better off redeploying their assets entirely. "Throughout Europe there are a number of companies that may not survive," says Patrick Page Kildoyle, portfolio manager for First Investors International Securities Fund of New York. "The steel business is obvious, the chemical business may just be a place where Europe can't compete and may not belong. Whether that's also true of much of the automotive business remains to be seen."

Transatlantic Fund's Henry de Vismes agrees: "Politically, it'll never happen that Europe moves out of the basics, although it should. So instead, the short-run solution is twofold: Try to reduce capacity and become profitable, even on a marginal rate of operation. But," adds the fund executive, "I'm afraid the backup is to appeal to government for help through direct subsidies or import quotas."

Behind the rhetoric, though, there has been some slimming down. Since the 1975 recession, employment in the E.E.C. steel sector has been cut by 30%—from around 781,000 to

541,000. Despite widespread plant closings, however, the best estimate is that the industry is still saddled with about 40 million tons of excess capacity—20% of total capacity. E.E.C. Commission figures show that productivity has risen by about 30%, but the industry is still pushing against the string of outmoded plant and overly generous manning scales. Even the most optimistic projections for next year suggest that the industry will be burdened by more than 25 million tons of excess capability.

Look at British Steel. It has cut costs so dramatically that even its posh Belgravia executive offices have been wiped out and productivity is up a startling 40%. In its last fiscal year, though, the company still lost an estimated £340 million. That's half the deficit of the year before, but it seems unlikely that BSC—even with a generous infusion of government cash—will meet its goal of breaking even by the end of the 1983 fiscal year.

Siemens, West Germany's biggest electrical goods producer, has trimmed or shut down some marginal operations, and in the first six months of this fiscal year cut its 343,000-man work force by another 10,000. Earnings were up 8.6% on a sales gain of 13%, mainly because of a welcome upsurge in export sales—encouraging.

But investors are an impatient lot. Putnam International Advisors, for example, has been selling Siemens and so has the Transatlantic Fund. "Siemens has run into severe problems," says Walter Oechsle, Putnam's managing director. "They've brought in new management, and I'm sure that in the long run they'll make it." The big question mark to Oechsle is whether Siemens can turn around the computer side of its business: "By the

time they catch up, the others will have moved far ahead," he worries.

Henry de Vismes of the Transatlantic Fund agrees. "Things have got to where they [Siemens] even lost the German post office account. They don't even have a captive domestic market anymore. We see profit potential, but it'll be a long haul." Everyone agrees that Siemens is a fine company, but "long-haul" isn't a phrase that turns money managers on.

American managers are by no means entirely bearish on Europe, however. Hollands' Philips Lamp is a company in which several of them can see a turnaround within a time frame more acceptable to investors. Putnam, First Investors and Kemper International Fund have all been buying the stock. Yes, the company has made some mistakes. As John Ab-bink, who follows internationals for Merrill Lynch, notes, Philips invented the videotape recorder, only to be overrun by the Japanese largely because "its prices tended to be higher, its warranties shorter and its advertising stodgier."

But Philips has learned. It has deepened its penetration of American markets with the purchase of GTE's consumer electronics divisions, Sylvania and Philco. Perhaps most important, the payroll cutbacks seem to be a lot more than just a numbers game. TV picture tubes that used to be turned out in a cluster of small plants are now being centralized in two or three new factories.

Philips isn't out of the woods yet, but the promise of high unit volume efficiencies in a major product line and a pronounced change in its view of its place in the world is encouraging to Oechsle: "Philips has always had an excellent name in consumer electronics, but the company never was really run with a profit motive. Now they're bottom-line oriented."

Bahamas-based John Templeton is the U.S.' most distinguished international investor. He is not bullish about the prospects for most European multinationals. Templeton hasn't been selling, but he hasn't been buying much, either. He concedes the European economy has "passed the bottom point," but is convinced the multinationals will not be able to break the grip of unions and "the socialist parties." Templeton, whose towering reputation as a money manager is based in part on his early recognition of the potential in post-WWII Europe, thinks that Switzerland is the only safe place to look. At the mo-



Here are the lands of opportunity

PHILIPPINES

“ Business confidence is rising in response to the government's program. Several major companies are investing in electronics processing and minerals smelting. Many more firms will find new investment opportunities as the government opens a broad range of manufacturing activities to foreign investment. ”

ASEAN

“ As a community the five ASEAN nations (Singapore, Malaysia, Thailand, the Philippines and Indonesia) are averaging an annual real growth rate of almost 8 per cent. Total US exports to the area in 1980 were valued at approximately \$8 billion, an average of 26 per cent over 1979. Market opportunities for American suppliers will continue to expand. ”

Quotes from Business America magazine (July 1981) published by the U.S. Department of Commerce.

Here is the bank of opportunity PHILIPPINE NATIONAL BANK

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ment, he sees no bargains there.

In a way, this U.S. bearishness about Western Europe is simply a reflection of the worry and soul-searching now going on among European businessmen themselves. It is a re-

flection of the despair in a Europe afflicted with fuzzy-headed "Greens" in West Germany and the French government's adoption of a kind of neo-Keynesianism long since abandoned as unworkable in the U.S.

This will not be the first time the New World has written off the Old World. We have been wrong in the past; we may be wrong again. Time will tell. ■



OPEC is no friend to the less-developed nations. But in an oblique way the oil cartel did India a favor.

It's an ill wind . . .

By Subrata N. Chakravarty

INDIA WAS HANDED a body blow by OPEC in 1973. Far more industrialized than most people realize, India has the world's tenth-largest industrial economy. Industrial means oil-using. Thus, India needs oil much more than most developing nations. Moreover, India is one of the world's largest users and importers of petro-

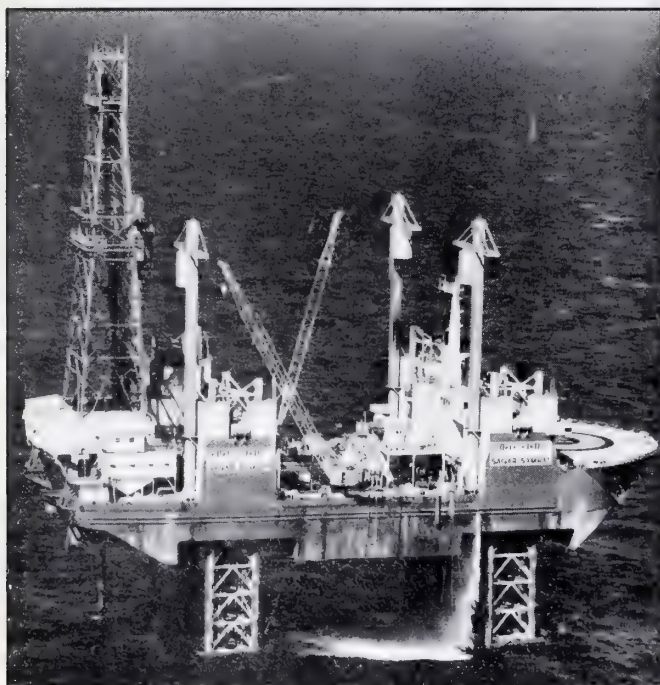
leum-based fertilizers. And, as a poor country, which imported over two-thirds of its oil consumption, India was much more strained than most to pay OPEC's higher prices.

Not that India had been extravagant in its oil use. Its daily consumption of 440,000 barrels in 1973 was less than the U.S. used every *hour*. But precisely because India used so very little, there was little scope for cutting back. So

India's bill for oil imports soared from \$275 million in the 1973 fiscal year (ended in March) to over \$1.4 billion in fiscal 1975, although the actual amount imported went up only 7%.

The 1979 round of price increases sent the cost of oil imports up to about \$6 billion in fiscal 1981 and 1982, just when a worldwide recession slowed the growth in Indian exports and the flow of remittances as Indians working in the Mideast began to return home. Its foreign exchange reserves dropped over 40%, to below \$4 billion. India's only hope of keeping its head above water was to find more of its own oil.

Oil exploration had been a languid affair until the 1973 oil embargo. The first discovery had been made by accident in the northeast state of Assam in the mid-19th century, and not much else was done until the mid-20th. In 1953 Standard Vacuum, a subsidiary of Exxon, got an exploration contract on very liberal terms. Unimpressed with the prospects, and harassed by India's implacable bureaucracy, Stanvac withdrew in 1960 after seven years of desultory exploration. The Russians stepped in with technical assistance in the 1960s and



Indian drilling ship in the Arabian Sea; drilling in progress at Bombay High oilfield
OPEC was the goad; survival was the goal.



B.A.T INDUSTRIES

Sound underlying growth

The Chairman, Sir Peter Macadam comments:

This has been a good year for the Group. Our results show a very positive advance – 'positive' because our true rate of growth has been substantial. Even after allowing for the benefits of exchange rate variations, trading profit has increased by 15 per cent over 1980, and attributable profit by 29 per cent. These figures bear out the confidence I expressed last year in the strength of our international and industrial diversity.

Group results have shown a substantial improvement, with turnover increasing by 21 per cent to £9,265 million, trading profit up by 36 per cent at £634 million and profit before tax up by 43 per cent at £684 million. The picture is one of significant underlying growth.

The results, covering a period when many economies were suffering from the worst recession for several decades, demonstrate again the fundamental soundness of the Group's businesses, the comparative resilience of the tobacco industry and the benefit of the wide geographical spread of its interests.

RESULTS SUMMARY

	Year to 31 December		
	1981	1980	% change
	£ millions		
Turnover	9,265	7,645	+21
Trading profit	634	467	+36
Profit before taxation	684	479	+43
Net profit before extraordinary items	363	234	+55
Dividends per share	23.0p	19.0p	+21
Earnings per share	99.9p	64.4p	+55

Exchange rates: \$1.91 = £1 \$2.39 = £1

INDUSTRIAL ANALYSIS

	Year to 31 December			
	1981	%	1980	%
	£ millions		£ millions	
Turnover				
Tobacco	5,322	57	4,331	57
Retailing	2,180	23	1,772	23
Paper	798	9	709	9
Packaging & printing	525	6	465	6
Other trading activities	440	5	368	5
	9,265	100	7,645	100
Trading profit				
Tobacco	469	74	336	72
Retailing	72	11	42	9
Paper	47	8	52	11
Packaging & printing	20	3	21	4
Other trading activities	26	4	16	4
	634	100	467	100

GEOGRAPHICAL ANALYSIS

	Year to 31 December			
	1981	%	1980	%
	£ millions		£ millions	
Turnover				
United Kingdom	2,034	22	1,757	23
Europe	1,979	21	1,755	23
North America	2,542	27	1,871	24
Latin America	1,731	19	1,495	19
Asia	566	6	425	6
Africa	355	4	300	4
Australasia	58	1	42	1
	9,265	100	7,645	100
Trading profit				
United Kingdom	46	7	18	4
Europe	77	12	78	17
North America	283	45	212	45
Latin America	131	21	78	17
Asia	59	9	44	9
Africa	35	6	35	8
Australasia	3	—	2	—
	634	100	467	100

Royalty income less related expenditure is now included in the area in which the licensor is located. The 1980 figures have been adjusted to reflect this change.

Copies of the Report and Accounts are available from the Secretary:

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XEROX

a Russian geologic survey vessel found a very promising structure on the continental shelf off the city of Bombay in 1964. But it was not until 1974, after the oil embargo, that the state-owned Oil and Natural Gas Commission began exploration there. Within three weeks it struck oil in the Bombay High oilfield.

Bombay High, by far India's most significant discovery so far, is being developed, for a fee, with Cie. Française des Pétroles. It now produces 250,000 barrels a day and is expected to yield 400,000 barrels a day by 1985. With primary recoverable reserves of around 2.5 billion barrels proved so far, Bombay High is a good-size find by anyone's standards. D.W. Lewis, manager for the Asia/Pacific region for Standard Oil of California says, "There are only a handful of offshore fields in the North Sea and the Middle

East that produce that much, and none in the Western Hemisphere."

India is no Saudi Arabia or Mexico or Iran. But, with luck, it may find a good many other deposits. In the past five years the ONGC has made many other finds that have yet to be evaluated. Among the discoveries are other fields offshore Bombay—including South Bassein, a giant free gas field with reserves of around 6 trillion cubic feet—and several other areas along India's coastline whose potential it is too early to assess (*see map*). And there is much further scope for exploration. Drilling is just beginning, for example, along a long stretch of the Himalayan foothills whose potential, according to Barry Sahgal, energy analyst for Bache, is comparable to the Overthrust Belt in the U.S. Rocky Mountains.

If the progress is impressive, the

price has been high. To finance this drive for energy self-sufficiency, the government has had to divert massive amounts of capital and seek further funding on the Eurodollar market and from the World Bank, which loaned \$550 million to develop Bombay High and is considering several other loan proposals. The development of energy resources might proceed faster if the Indian government would open up more areas to foreign oil companies. But the oil companies have not found India attractive so far. Despite Bombay High, the companies believe most finds are likely to be small and the cost of exploration high. And because of its need for oil, India insists that any oil found be kept at home. "They need every drop of oil they can get their hands on," says an oil company executive. "We can't take the oil away even if we find any."

Oil imports continue to be a massive drain on the Indian economy. But with proved reserves so far of close to 3.5 billion barrels of oil and 15 trillion cubic feet of gas, the situation is no longer desperate. Oil production in fiscal 1982 rose to 330,000 barrels a day, just over half of consumption for the first time. Even without production from the newer discoveries, India's domestic output should touch 600,000 barrels a day by 1985, over 70% of its projected consumption of 850,000 barrels per day. In 1973 it produced just 32% of its oil needs. Natural gas production will triple to over 900 million cubic feet per day. India will use that to feed 10 large new fertilizer plants that will produce 5 million metric tons of nitrogenous fertilizer per year, as much as India used last year and double what it imported. To tide it over its balance of payments problems until then, India last year negotiated the largest loan ever made by the International Monetary Fund—5 billion Special Drawing Rights, worth \$5.7 billion.

If the recent discoveries live up to their promise, India may even be self-sufficient by the end of the decade. Self-sufficiency is unlikely to last long, of course, since demand will also grow in an expanding economy.

The world works in funny ways. In the beginning, OPEC almost wrecked the struggling Indian economy. But India responded to the challenge in a way that may, in the long run, stimulate its economic development. Ironically though, as long ago as 1967, America's Tenneco offered to explore offshore Bombay on terms that would have brought India its oil sooner and possibly at a lower price. ■



Second quest for independence

India's frantic search for oil since 1974 has yielded enough promising finds to make her 70% self-sufficient in two years' time.



HOW NEC BROUGHT JAPAN'S SKILL IN MINIATURIZATION TO THE U.S.

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Now Bank of Boston also provides NEC with a wide variety of corporate services, ranging from the most sophisticated cash management system to our unique freight payment service.

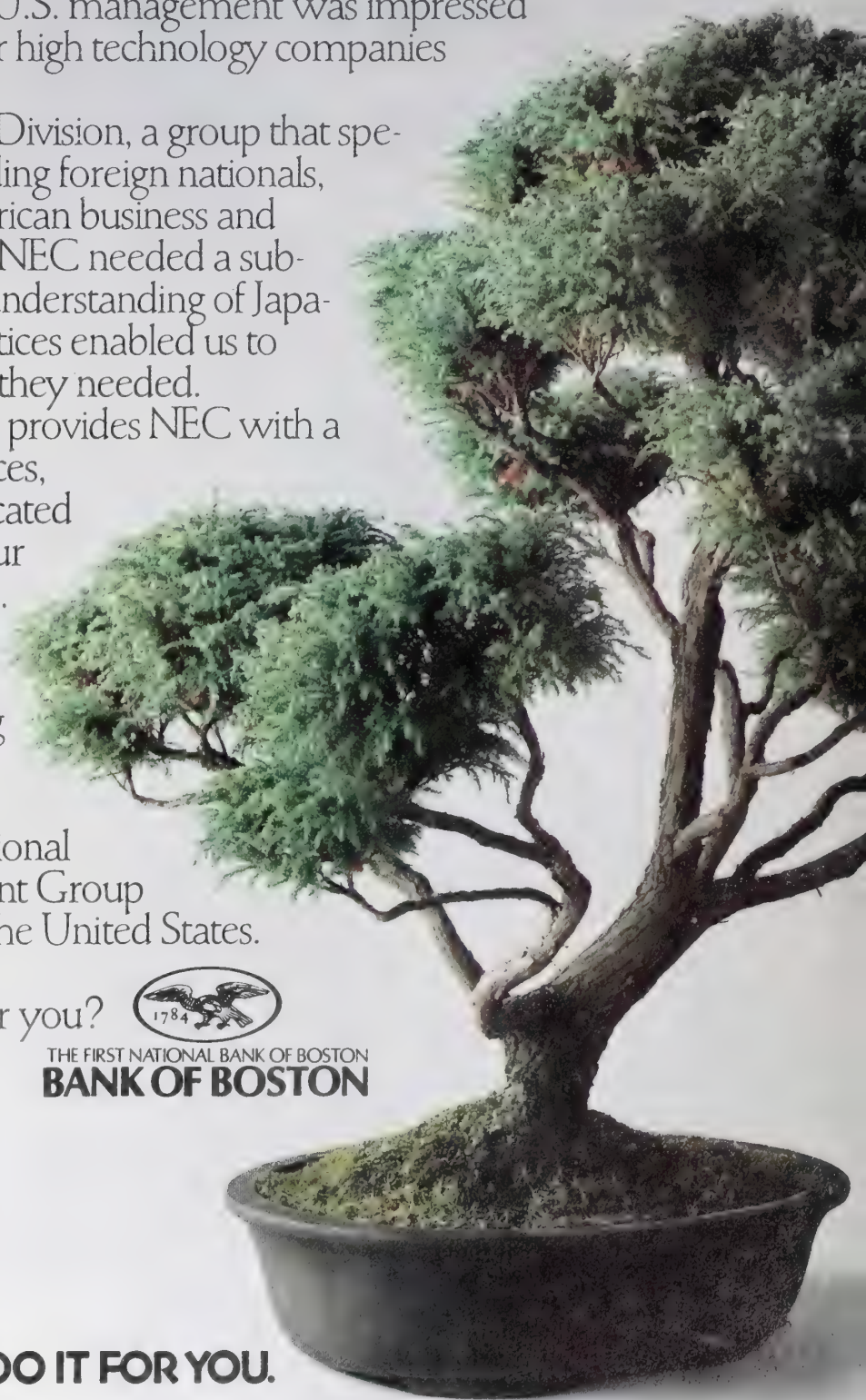
And due to the tremendous potential in the miniaturized market, they'll be investing another \$100,000,000 in the U.S.

Bank of Boston's International Division and Reverse Investment Group helped NEC establish roots in the United States. That's what we did for them.

Now, what can we do for you?



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WE'VE DONE IT. WE CAN DO IT FOR YOU.

Florida Tile recovered only recently from a disastrous attempt to diversify. Will it survive the housing slump?

On the comeback trail with Jimmy Sikes

By Paul B. Brown

JIMMY SIKES, his white sports shirt open and sweat collecting on his face, stood quietly in the sweltering sun watching his son, Jamie, play tennis. Sikes looked worried. Things weren't going well for Jamie. Having won the first set and ahead 2-1 in the second set of the match that would determine whether his school—Lakeland (Fla.) High—would advance to the state tennis finals, Jamie had let his concentration wander. He was frequently in the center of the court—a major tactical error—lunging for shots. As a result, the younger Sikes and his partner were trailing Winter Haven 4-1 in the last doubles match of the afternoon. Jamie sighed and used his shirttail to wipe his face. "Bear down," he said out loud. And he did. The crosscourt backhand shots began to drop, and Sikes and his partner won the second set 6-4. It was on to Tallahassee.

It was an all-too-familiar script for the proud father. Jimmy Sikes knows all about having a lead—his was in the tile business—and letting it slip away. He lived through it once in the late 1960s and mid-1970s, and he is going through it again right now. Like his son, Jimmy is bearing down. Unlike his son, Jimmy Sikes' problems are not completely within his control. "That doesn't matter," says Sikes, 52. "We are going to do it."

What Sikes says he is going to do is make a lot of money in the tile business. No easy task, as 90% of the sales of Florida Tile—the name under which Sikes Corp. markets its only product—is in the residential market, where housing starts are the lowest

they have been since the end of World War II.

Still, Sikes says he will bring his company back to the 26% return on equity, on ever-decreasing debt, that he was averaging before the housing market fell apart. And he says he will do it soon—possibly as early as this fiscal year. That would be quite a feat. In the year ending in February, although sales were up 12%, to \$46 million, net income dropped 40%, knocking return on equity down to 14%, about half of what it had been for the preceding five years. Still, Sikes says his company will recover quickly. "I have been in this business for a long time; I know what I am talking about," he says simply. Sikes

prides himself on being the first to spot trends in color, style and design in the \$540 million market before the competition (chiefly Dallas Ceramic Co., Monarch, U.S. Ceramic and American Olean). Now he thinks he has spotted two other changes he can capitalize on: automation and the rapidly expanding home-remodeling market.

It was an ability to spot trends that got Sikes into the business in the first place, 28 years ago. As a business administration major at the University of Florida, Sikes, the son of a tile mason, studied the annual reports of the largest tile companies. He concluded that the tile market was not sealed so tight as the 4¼"x 4¼" tiles he had been placing on the walls and floors of homes in southern Florida. "Every time I would help my father on a job, we would have to beg the major tile companies and suppliers for the tile we needed," Sikes says. "Demand was far ahead of supply." Armed with that knowledge, he took a \$5,000 loan from his family and \$3,000 from the bank and bought out a failing tile factory at 8 cents on the dollar. Sikes went into business making a piece of trim that went on windowsills in bathrooms. Eventually residential tile was added—the commercial market was more competitive—and by 1969 Sikes was a \$15 million (sales) company selling tile primarily in the Southeast.

Sikes says he could have lived happily ever after with that result, except

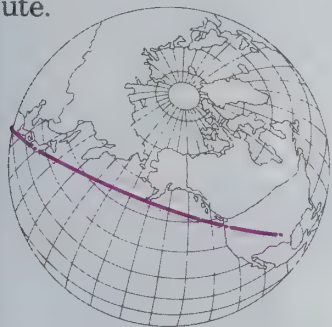


Sikes Corp. Chairman Jimmy Sikes
"It ain't braggin' if you do it."



A people who would leave a water jar on their porch for a thirsty passer-by, need little training in the art of hospitality. This charming custom of Thailand has long been the children's chore.

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Thai

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U.S. STEEL TAKES A STAND ON CLEAN AIR.

**“An updated
Clean Air Act
can mean
healthy air,
healthy
industry and
more jobs.”**

The Clean Air Act needs revision. It should be updated to assure continued improvements in our nation's air quality, but at the same time encourage rather than inhibit industrial growth. Many jobs—both present and future—are at stake. That's why we need a healthy balance between economic and environmental goals.

Those who have been claiming that proposals now before the Congress would set back America's environmental goals are simply wrong. None of the proposals would change National Ambient Air Quality Standards or the manner in which they are established, and progress toward the attainment of those standards would continue. And existing control facilities would remain in place—backsliding would not be permitted.

The changes which are proposed are necessary to permit job-creating industrial development, but they will not result in lower air quality. Virtually everyone agrees that compliance date extensions are necessary to remove bans on new construction. The Prevention of Significant Deterioration requirements for industrial development in attainment areas can be simplified. The studies of the acid rain question should be accelerated, but specific remedies cannot be devised until the problem is understood. The same is true with the hazardous pollutant question. Good science should determine what is hazardous before we develop control programs. As for the all-important mobile source issue, hundreds of dollars per automobile are involved for environmental requirements which will have very little impact on air quality. With the proposed standards, auto emissions will continue to decline for the balance of this decade.

We support H.R. 5252 in the House and similar legislation that has been introduced in three separate bills in the Senate. These bills, if enacted, would assure continued improvement in air quality and would remove roadblocks in the current Act to industrial development and the construction of badly needed energy facilities.

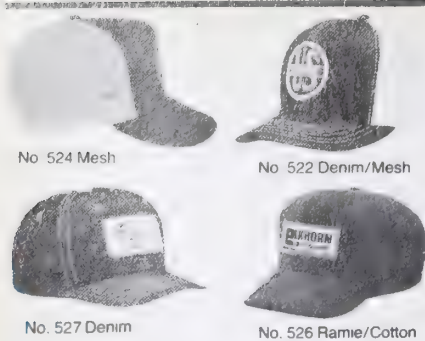
We join many concerned Americans in urging Congress to enact such legislation in the near future. And we urge those who agree with us to let their Congressmen and Senators know how they feel.

That's what we think, what do you think?

United States Steel

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The Up & Comers

for two things: First, it was a saturated market. Total residential tile sales remained at about 400 million square feet throughout the 1960s. Second, the residential tile business was tied to the volatile new-home construction market. So Sikes decided he had to diversify. The logic was flawless. The execution: awful.

Sikes moved into carpet. It was a floor covering that could be sold through the same distributors, and it was countercyclical to the housing industry, since two-thirds of carpet sales are made to replace worn-out rugs. "We looked at our results up until then, and the banks did, too, and we both concluded that our company could do no wrong," Sikes says. "Well, the folks saw me coming down the road in my shiny new suit, and I got taken."

Flush with success, Sikes decided to make the move into carpet a "first-class" effort. A carpet division couldn't be called Florida Tile—the company name back then—so Sikes sought professional help. "We hired a big-deal New York public relations firm and paid them \$40,000—remember this was 1969—to come up with a name for us, a logo, design the stationery and the whole thing," Sikes says. "Three months later they flew me up to New York to make a presentation to me. So I got up there, and they took me into one of these little rooms and a screen came down. There I am, sitting with a scotch and soda. The lights go down and up on the screen comes 'Sykes Carpet.' Now I done paid \$40,000 for my own damned name, and they misspelled it: S-Y-K-E-S!"

The rest of the push into carpets didn't fare much better. The first three years were great. Sikes managed to triple sales to \$45 million. Net income increased threefold as well. But the industry changed in 1972. When Sikes bought in, about 80% of the business was hand-dyed piecemeal. Almost overnight production methods changed: Eighty percent of the work was automated. Sikes tried to spend his way out of the problem. Experts were hired. His two mills were consolidated. Marketing strategy was changed. Nothing worked. Sales dropped and long-term debt, which had been 35% of total capital in 1973, doubled within two years.

Late in 1974, after the proposed solutions had failed and he had spent many sleepless nights, Sikes went to a friend at a competing carpet company and asked what it would cost to stay

in business. "When he told me \$50 million, I knew I had to get out quick and any way I could," Sikes says. He sold the carpet division to its manager for a \$4 million note that was never paid. In all, the expansion into carpet cost Sikes \$10 million. It also severely tested his relationship with his banks, even though he was on the board of one of them.

After renegotiating the bank loans, Sikes expanded the tile business west of the Rockies. Most important, decorative tiles, which are colored and patterned to fit the decor throughout the house, were added to the product line. Tile was just starting to be used outside the bathroom, and Sikes quickly went after the market. He had no choice.

"I knew the new decorative tiles would put us in a growth area," says

"We looked at our results up to then—and the banks did, too—and we both concluded we could do no wrong," Sikes says. "Well, the folks saw me coming down the road in my shiny new suit, and I got taken."

Sikes. "I am pretty good on planning strategies, and in figuring out what products to make. You must have the talent of knowing what raw materials will fit in your manufacturing process and still be able to make a product that you can make a buck on. It sounds like it is fairly simple, but it's not. But I could do it, and the bankers knew it and that's what saved my skin."

That and a trip to Italy. During the crisis Sikes went to Europe looking for new ideas. He was surprised to learn that Italians use 15 times more tile than Americans. A major reason was that the Italians were using earth-tone tiles in kitchens and on floors outside the bathroom. When he learned the Italians did not plan to manufacture in America, Sikes began manufacturing a knock-off version himself. Although about twice the price of other tiles—about \$5 a square foot at retail—the tiles found a ready market. Sikes Corp. was in the process of building a \$16 million plant, which would be used chiefly to manufacture the decorative tiles, when the housing crunch hit.

Unlike the carpet debacle, this time Sikes was prepared to deal with a shifting market, and even take advantage of it. The new plant in Georgia can produce the decorative tiles for

about half the current price, by using less manpower and energy. The plant is now beginning operation. But while a lower price will make the tile more popular, it doesn't help much if you are still tied to the housing cycle. Sikes thinks the remodeling boom is the answer.

"They built about 1.3 million homes in 1980," Sikes says. "Last year, about 1.1 million. And this year the revised estimate is another 1.1 million. There is at least a bath-and-a-half in each of those homes, so in the 1.1 million homes, you are talking about 1.6 million, 1.7 million baths. How does that compare with the remodeling market? The remodeling market last year alone did 3.1 million baths. They did 2.2 million kitchens and put on 1 million additions."

What this says to Sikes is that there must be a huge market out there. (Huge because remodeling sales have risen, from \$13 billion in 1975 to \$30 billion last year and a projected \$58 billion in 1986.) As high mortgage rates keep people from moving from their present homes, they will remodel, either to make their surroundings more pleasant or to try to increase resale value. So as new home construction drops, remodeling increases.

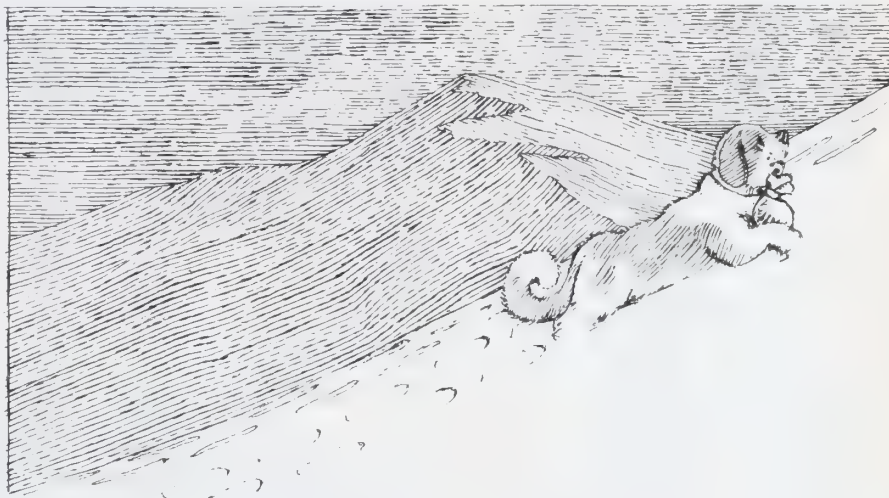
Of course, Sikes still must persuade homeowners to put his decorative tile on their kitchens and floors. That may be easier said than done, with defaults on mortgages at a record rate. Even if a homeowner chooses to remodel, he still must be shown why it is better to spend \$3.14 a square foot (the average price) to install tile, compared with about \$2 a square foot for either vinyl or carpeting. True, tile lasts up to 6 times as long, but that is not everyone's prime concern. Then there is the problem of dealing with the homeowner who prefers slapping some vinyl tiles with adhesive on the back onto his floor, as opposed to worrying about grouting tile.

Sikes agrees these are all reasonable questions, but says all he's really after is the cream of the market. "The flooring market is a 17-billion-square-foot market, and 11 billion of that comes from remodeling," he says. "Tile right now is about 540 million square feet. We don't want the entire market, just a small piece."

And if he gets it, what about Sikes' future? Well, its chairman would not disagree with a projection of \$100 million in sales within three years. Isn't that a lot of tile? "Yes, but it's like Dizzy Dean said, 'It ain't braggin' if you do it.'"

Coming back for more

Starting up your own business may have been tough. But keeping it going may be even tougher. Venture capital glut or no, you will have to hand over more of your business in exchange for that second round of financing these days. "It's getting very, very hard to get money at the second round of financing," says William Comfort, chairman of Citicorp Venture Capital Ltd. "Unless it's absolutely a fabulous deal, [entrepreneurs] are not going to get that money until they cut their prices. There may be plenty of venture cap-



ital money, but the money has now become more particular."

Certainly the money is still there. In just the past four years, the nation's venture capital pool has doubled to about \$5.8 billion after nearly a decade at the \$2.5 billion-to-\$3 billion level. Along with the flood of new money came a host of newcomers into the venture capital fraternity. Lacking the contacts and knowhow to get into attractive startup deals, many jumped at the chance to do second-round and expansion financing. The result? Prices simply went through the roof.

"Some people just dropped out of second-round financing because it became too expensive," says Harvey Wertheim of New York-based Harvest Ventures, Inc. Other venture funds were willing to pay as much as 8 times more than the startup prices for the same share of the company in a second round. Typically, venture capitalists might pay a markup of 3 or 4 times over startup financing for second-tier financing. Why? Because there is less risk with a venture that is either close to or already producing a product and has its management team in place. Some venture capitalists also bid up the prices because these new companies were likely to go public

much sooner, and they could recover their investment with a tidy profit. But all that has now changed. In the past six months or so, the market for new issues has soured and prices on second-round and later financing deals have fallen.

Take a relatively new midwestern company in the computer printer business. It is now seeking second-round financing. The private company needs another \$3 million. To raise that sum through the issuance of new stock, the firm finds it can give itself a total market valuation of \$8 million. Investors participating in the deal, therefore, would get roughly

37% of the company for their \$3 million. That's relatively expensive. "In the hot period, that printer would have gone out at a \$12 million valuation, so you would have gotten only 25% for the same \$3 million," says Comfort. "In more normal times, the business would be valued at only \$6 million (allowing investors to get 50% of the action). Prices aren't nearly as high as they had been, but they still aren't cheap."

New enterprises that haven't lived up to their projections are likely to find the toughest going. Many of these companies will have to sacrifice more of their businesses to investors in each succeeding round of financing after startup. Instead of getting a premium or markup price, these fledgling concerns will get just the opposite. Nonetheless, as much as 70% of the additional \$1.4 billion expected to be added to the venture capital pool this year is likely to be invested in second-round and expansion financings, compared with 50% last year and only 30% in 1980.

But, as ever, the successful entrepreneur who can deliver on the promises he made to his initial investors still can command high premiums. AVI, Inc., for instance, a Minneapolis-

The Up & Comers

based medical electronics firm, recently raised 4 times its initial start-up money in a second round with a markup 8 times higher than the first. Says AVI President Kent Archibald, "We had a better story to tell investors. We had a product with clinical experience instead of a prototype, FDA approval, a good patent and solid sales projections." Obviously, venture capitalists have to pay a premium for that. A far cry from the recent past when even companies missing their business plans would nail some of the lucrative deals.—John A. Byrne

It makes you wonder

Why doesn't someone sell Ma Bell a phone system for its PhoneCenter Stores?

AT&T's phone stores may be the only business operation in the U.S. that you can't call. Oh, they have dozens of phones: the red, white and blue Stars and Stripes Candlestick model, the Mickey Mouse telephone, the more traditional Trimline. But not for incoming calls.

Why? The saleswoman in charge at a suburban New Jersey store said that a phone would just ring constantly and slow service while salespeople answered it. An AT&T district manager of advertising added this explanation: "Our problem was that there was no way we could list it in directories because there was no classification that it fell under. It's not like a grocery store or retail store or lingerie shop, you know."

So maybe the entrepreneurs running independent phone stores (listed for years) could offer PhoneCenter Stores some advice—but not by phone.—Laura Rohmann

"There's always another penny"

When one third of your business goes to the ailing automotive market and the rest to markets like footwear and leisure time, you have been having a terrible time, right?

Not necessarily. Last year Winchester, Va.'s \$73.7 million (sales), debt-free O'Sullivan Corp. chalked up 31% earnings growth and 25% return on equity, just as it had been doing back when *FORBES* spotted the company as an Up & Comer (July 9, 1979). How did they do that in auto dashboards, shoe soles and window screens for boats? By increasing market share and

cutting costs.

"There's more plastic going on each car every year," says Arthur (Bunny) Bryant, O'Sullivan's president. "We also supply more car lines now."

Bryant isn't counting solely on Detroit for O'Sullivan's future. Now he wants to get into the defense business. He thinks that he can use the injection-molding equipment O'Sullivan uses to pound out plastic automobile door panels and instrument panels to manufacture such items as plastic cartridge cases for the Pentagon. "It's a tough market to crack," says his father, Chairman J.C. Herbert Bryant, 73. "We are getting some small—and I want to emphasize small—research contracts to develop models for some things, but we haven't gotten any real business out of them yet. We are in contact all the time though, and we have a full-time man there in Washington."

Meanwhile, the Bryants have been tightening their belts to support their profits. Although the company's first-quarter sales were off by 4%, earnings were up 9%. "We think there are two ways to make a profit," says the elder Bryant. "One is by raising your price,

but your competition doesn't always allow you to do that. And you can always cut costs. No matter how much you cut, there's always another penny. We work on that angle." So, over the last three years, O'Sullivan has cut its work force by 18%, to 825.

The senior Bryant, who has his own seat on the New York Stock Exchange, has been faring almost as well in the financial markets. O'Sullivan's investment income, mostly from CDs and municipal bonds, nearly doubled last year and accounted for 13% of net earnings.

And Bryant is still buying O'Sullivan stock. He currently owns almost 32% of the company. The stock has been a good investment—it has been trading at around 16 lately, which is about double what it was selling for in 1979, and the company recently declared a 5-for-4 stock split. Although over half of the company is now closely held, Bryant consistently denies he's interested in taking it private. But Bryant says he's not going to stop buying shares: "Not many shares come on the market," he says, "but if a block comes on, we're there." It's no wonder.—Janet Bamford



Arthur and J.C. Herbert Bryant of O'Sullivan Corp.
Some of their markets may be ailing, but they're not.



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Personal Affairs

Edited by William G. Flanagan

When the Price— or the Addams—is right

There may come a time when you see a cartoon, roar at it and determine that you simply must own the original. John Lampe saw the one at right and had to have it. Understandably. Trust Paine Webber's PR man to capitalize on George Price's humor. But what surprised Lampe, and may surprise you, is how easily it was bought. A call to *The New Yorker* and a check in the mail were all it took.

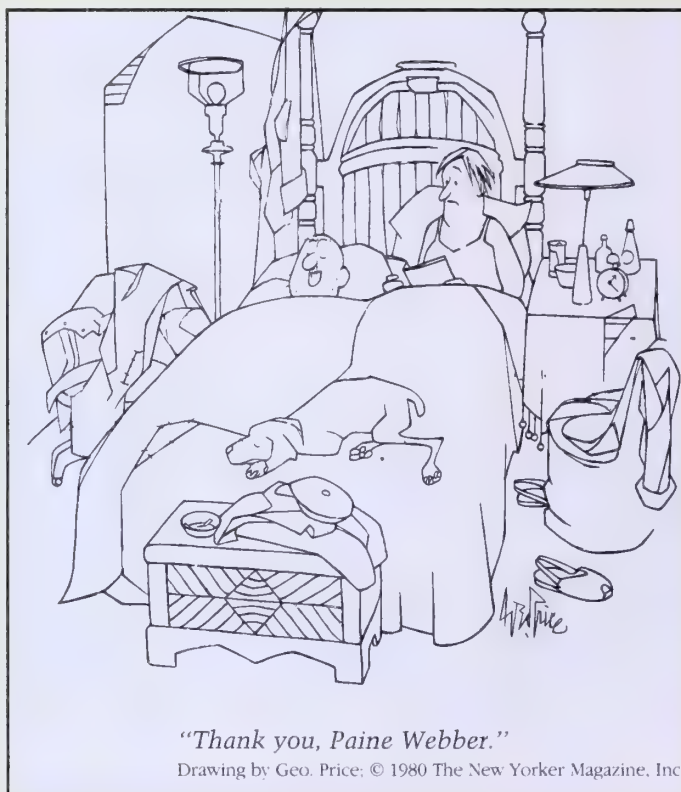
For less than you might think, Gahan Wilson's pastel monsters in *Playboy* or Pat Oliphant's stringy Uncle Sams, or a host of works by platoons of popular cartoonists can be easily purchased. For businessmen like John Marvin, a partner at the investment management firm of Neuberger & Berman, cartoons by George Price, James Stevenson and Frank Modell bring some balance into his office. "In a business that tends to take itself very seriously indeed," he says, "it's nice to be surrounded by things that can make you and your clients smile."

The best way to acquire a cartoon is simply to write to the cartoonist in care of the magazine or newspaper in which it first appeared. Some cartoonists handle sales themselves; others will refer you to their agents, the syndicate or to the art department of the publication. If you're shopping for a cartoonist rather than a particular cartoon, the Jane Haslem Gallery (2121 P St. NW, Washington, D.C. 20037) carries a large inventory of contemporary political cartoons as well as some comic strips. The Ted Martin Cartoon Gallery (221 Avenue Road, Toronto M5R 2J3) sells Martin's own original Pavlov cartoons as well as other comic strip, political and magazine cartoon originals. Here are things to keep

in mind in tracking down originals:

- Magazine or "gag" cartoons. From the offhand affluence of Charles Saxon's suburbanites to George Booth's lunatic world citizens, *The New Yorker* regularly sets the stage for a parade of cartoon favorites. Originals purchased through the magazine cost between \$200 and \$300, but sometimes much more. These cartoonists work in all sizes. William Hamilton's cartoons are usually 8½" x 11", while Everett Opie's are often 22" x 30".

Other works by current *New Yorker* cartoonists such as James Stevenson, Whitney Darrow, Charles Addams, Charles Saxon and Frank Modell can be purchased through Barbara Nicholls' gallery in New York (212-472-0211). The prices run up to \$2,000 for much-sought-after classics.



"Thank you, Paine Webber."

Drawing by Geo. Price; © 1980 The New Yorker Magazine, Inc.

Price cartoon based on ad campaign

The PR man just had to have the original for the brass.

Though Nicholls thinks a cartoon's humor, quality of drawing and overall aesthetic appeal are the best reasons for buying a cartoon, some buyers have other purposes. "I've seen some perfectly lovely couples give each other cartoons saying perfectly awful things," she reports.

Full-page color cartoons in *Playboy* cost around \$1,000. The magazine receives many requests for cartoons to be given as gifts to CEOs, presidents and salesmen, but doesn't sell out every issue's cartoon art. If your favorite Wilson creature isn't available through

Playboy, you might find the original for \$1,500 at the Louis K. Meisel Gallery at 141 Prince St. in New York. Edward Koren's fuzzy folk can be purchased at the Terry Dintenfass Gallery, 50 West 57th St., New York.

- Political or editorial cartoons. Sheer volume and datedness are the main reasons these are the least expensive cartoons to collect. Dennis Ryan, a senior vice president at Paine Webber in Los Angeles, set out to cover his office walls with cartoons pertaining to his business after buying his first one from Bill Schor at the Los Angeles *Herald Examiner* just over a year ago. He has collected the majority of his 250 political cartoons for under \$100 each. He finds that some artists are sometimes flattered enough by his interest to give away their cartoons.

Richard West, editor of *Target*, the political cartoon quarterly, says that a good cartoon by one of the better artists like Jeff MacNelly, Tony Auth, Don Wright, Mike Peters or Paul Conrad will probably cost from \$200 to \$300. But, he points out, prices can vary. "I think the cartoonist tends to price his cartoons with his eyes closed," he says, "and then sees if someone buys them."

The irreverent caricature and sarcastic style found in political cartoons of the last 15 to 20 years replaced a more dogmatic, symbolic style common from the 1930s through the 1950s. In fact, the best political cartoons today do not have the timeless qualities sought in most art collections. They are well drawn, issue-oriented and opinionated. Those qualities—"His work is saturated with opinion,"

says West—make Pat Oliphant one of the most popular and expensive cartoonists. His prices range from \$400 to \$1,000.

When sending for a cartoon, be sure to mail a copy of it and include the date it appeared. If it is available and you make the purchase, expect your cartoon to be larger than its newspaper size. Most cartoonists draw with a brush on 12" x 18" Graphix paper. Note: This paper is chemically treated for the artist's shading purposes and sometimes browns out or turns splotchy with age.

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Personal Affairs

The work of artists such as Al Hirschfeld and David Levine leans toward pure caricature but retains the stamp of editorial judgment. Levine's work, seen in the *New York Review of Books* and elsewhere, can be obtained at the Forum Gallery, at 1018 Madison Ave. in New York (212-772-7666). If your ego is firmly in place, Levine will repropotion your features in

caricature. His fee is \$2,500, if he's available.

• Comic strips. The bad news is that few of Garry Trudeau's steadfast hippies or Charles Schultz' rug rat crew are around to purchase. Trudeau donates some of his strips to women's groups for sale at shows and Schultz occasionally gives his to charities. Jane Haslem's gallery is the best bet for finding *Doonesbury* strips. A daily strip sells for an estimated \$300, while a Sunday strip costs about \$400.

On the brighter side, Johnny Hart, creator of *B.C.* and *The Wizard of Id*, has been known to give his originals to admirers. Most contemporary strip cartoonists sell through syndicates. Daily comic strips of Tom Wilson's

Ziggy cost between \$75 and \$100, and Jim Unger's Herman strips sell for \$175 to \$250.

Few cartoon collectors view their pieces as investments. As publisher Jim Heineman puts it, "I don't collect for profit. I never sold a damn thing and I don't intend to." The resale market for contemporary cartoons is narrow and unreliable. Barbara Nicholls maintains she never promises that a cartoon will appreciate in value. Still, she has seen the asking price for a Charles Addams original, for instance, go from around \$1,500 two years ago to more than \$2,000 recently. But cartoonists can't be brilliant every day. Each cartoon carries a distinct negotiable price.—Ellyn Spragins

Wing tips

What happens when you buy something with a credit card—such as an airline ticket—and the goods are never delivered? Are you out of luck or is the credit card company? Answer: Usually it's the card issuer who is the loser, but with some caveats.

The question is particularly relevant today, in the wake of Braniff International's collapse. Many would-have-been passengers were left holding tickets for flights that never got off the ground. The Braniff failure has spooked some passengers away from other beleaguered airlines, which might conceivably face the same fate. And more than a few carriers are in financial trouble (though travel agents say they are not shying away from booking any airlines, as they did with Braniff in the final days).

The irony is, of course, that the carriers that are hurting have plenty of empty seats, and so often come up with spectacularly low fares or special travel packages. Continental, for example, is offering space on its New York-to-Houston flights for \$178 round trip; American charges \$278 for the same flight, via Chicago.

Yet the budget-minded traveler who buys a ticket on any financially troubled carrier has to bear in mind the possibility—however remote—that the carrier could go the way of Braniff.

Moral: If it is fear of losing your money that keeps you off a troubled carrier, buy by credit card, instead of cash or check. In most cases you will be fully protected against loss, especially with Visa or MasterCard.

Look at what happened with Braniff ticket holders. If you bought a ticket with a credit card and asked for a refund, you would have been urged to use the ticket on another airline. If that failed, you would have been promised "favorable consideration" if

you had asked for a credit to your account.

That's what *FORBES* gathered after talking with American Express, Diners Club and the sponsors of the Air Travel Card.

Diners Club's policy is to credit the account "as long as we have some funds in-house from which to debit Braniff," says the company's legal counsel. What if Diners Club runs out of those funds? "I don't know the answer to that," the attorney says. "But there has not been a rash of credit requests in the Braniff case."

Visa and MasterCard are more reassuring. They advise ticket holders seeking refunds to go to the bank that issued the card. "By MasterCard and Visa regulations, the responsibility at the consumer level resides with the bank that issued the card," explains a spokesman for one such issuer.

The Civil Aeronautics Board's consumer protection branch urges Braniff ticket holders—and any other customers who have failed to receive anything bought by credit card—to send a written complaint to the card issuer.

According to a CAB spokesman, the Truth in Lending Act protects the consumer by not holding him responsible for payment in the case of a billing error. One item defined as a billing error is a good or a service that has never been delivered.

—Kevin McManus



Braniff's grounded fleet

Moral: When in doubt, use your credit card.



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Personal Affairs

House partners

There is hardly a young couple today able to afford a first house without at least some help from parents—his, hers or both. What's the best way to provide that help?

First, you can simply give the kids cash. They can add it to their down payment, giving them a lower mortgage and thus enabling them to buy a house or qualify for a mortgage they otherwise could not afford. This is great for the kids, but not such a hot deal for you: You are out a lot of cash right up front, and may even have to pay gift taxes for being so generous.

Another way is to buy the house yourself, as an investment, and rent it to your offspring. This has investment advantages to you, but it does little for the young people. They are still renters. (You can't even give them too much of a break on the rent or you run the risk of the IRS' queering the whole deal.)

A third option is a new wrinkle—the so-called partnership mortgage—whereby you and your offspring jointly buy the house. As a part owner, you share in the tax deductions of home ownership. Under most partnership mortgages, you actually take a disproportionately higher share of the tax benefits; and, if the house appreciates a great deal, you might even realize a profit on your investment. Meantime, the kids are buying a house they could never otherwise afford.

The partnership mortgage is a healthier variation of the ill-fated shared appreciation mortgage (there simply is no guarantee of any significant appreciation these days). It has particular appeal to upper-income parents, and it also has attracted small employers who want to help out young, valued employees with homes. In any case, the partnership mortgage, for the investor, is really a tax shelter. And, like most shelters, it can seem Byzantine. But the bottom line is this: You can derive more in tax benefits than you "give" to your offspring.

"The partnership mortgage is a tax-preferred investment," explains Roger Beattie, director of mortgage services for Electronic Realty Associates. "It allows the principal buyer to purchase a home, and, by giving up tax benefits

in return for the assistance, he gets a lot of the home's appreciation."

How does it work? Here's a typical example: Eugene and Darlene Wirth, of Cedar Falls, Iowa, wanted to help their 27-year-old son, Michael, and his wife, Laurie, buy a home. The younger Wirths were renting at the time. The home Michael wanted to buy was reasonably enough priced by today's standards—\$58,000—but the 30-year mortgage at a fixed rate of 14% offered by a local S&L put the monthly payments at \$709.16. Having just started his own dental practice, Michael could afford only about 75% of that.

A local real estate broker affiliated with Electronic Realty Associates,



The Wirths of Cedar Falls, Iowa
Tax advantages for a helping hand.

the second-largest real estate company in the country (after Century 21), suggested a partnership mortgage. Michael's parents will contribute \$188.86—about a fourth of the monthly mortgage payment—every month for five years. By then, Michael's practice presumably will provide him enough income to meet the full monthly payments by himself.

The financial relationship won't end then, although the parents will stop making monthly payments. When Michael begins paying the whole monthly mortgage fee, 46% will be considered a "loan" to his parents.

Why? Because to reap the maximum tax benefits in the deal, Michael's parents claim legal responsibility for 46% of the mortgage until the house is sold. During the first five years they will actually kick in only about a fourth of each monthly pay-

ment. The other three-fourths will be paid by Michael. For the purpose of the arrangement, Michael will be "lending" his parents the difference between the 46% of the payment for which they are responsible and the 25% or so they actually pay. After the five-year period, the son "lends" the entire 46% of the parents' portion of the monthly payments.

When the house is sold, the elder Wirths will repay those loans, from their share of the proceeds. The longer the house is owned by the son, the smaller the amount they are likely to net—unless the house appreciates handsomely, of course. In which case they might actually recapture more money than they invested—besides having the substantial annual tax deductions. For example, if the house is sold after five years, and has appreciated at 6.5% a year, the parents will net an 18% aftertax return.

For each year, the parents will be able to deduct from their federal taxes 46% of all interest payments and property taxes on the home. In the first year that deduction will come to \$3,766.64. In the Wirths' 50% tax bracket, that deduction is well worth the \$2,266.32 annual contribution they make for the first five years. Especially since, after five years, they still get 46% of all the tax deductions related to home ownership—without having to kick in a cent more.

ERA's partnership mortgage program—admittedly not the easiest to grasp—can work in other ways as well. In the above case the investor provided an interest rate subsidy to the home buyer, who had the down payment but could not meet the monthly payments. When the buyer can afford the monthly payments but can't come up with the down payment, the investor can provide all or part of it in a lump sum, or the investor can provide both part of the down payment and part of the monthly payments.

In the five months the program has been active, ERA has originated 550 partnership mortgages throughout the country (though not all these deals have been closed). "At first, lenders viewed the partnership mortgage as a partnership or a mortgage," says Beattie, "when in fact it is neither. It is a financial relationship between two co-buyers."

As financial institutions become familiar with it, he says, they are becoming more receptive. Why? "Because the loans they make are co-mortgagor transactions. Instead of having one party on the note, the lender ends up with two."

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Numbers Game

The FDIC wants to throw savings banks a life preserver. Does it have enough air? Or do the banks want the Queen Elizabeth 2?

Accounting life preserver?

By Richard Greene

WHILE CONGRESS DEBATES how to aid banks that have found their net worth decimated by high interest rates, banking accountants are struggling to buy their clients a little time to wait for that aid—or for interest rates to dip.

That effort is paying off. Just a couple of weeks ago, the Federal Deposit Insurance Corp. came up with a set of proposed accounting changes for mutual savings banks. The FDIC quickly admits that these proposals won't save mutual savings banks that are already nearly dead—but it will help a number of others to hang on a bit longer, until the cavalry arrives. The FDIC proposes to allow these banks to sell assets acquired before year's end—mortgages and long-term bonds primarily—and write off their losses over the remaining lives of the assets, instead of taking the loss immediately. Clearly, banks must start restructuring their portfolios. Some are stuck with portfolios full of bonds yielding far below current rates. But under the current accounting system they can't bail out of bad investments without plunging terminally into negative net worth.

The FDIC is also proposing that beginning Jan. 1, 1983 banks keep their accounts on a mark-to-market basis, adjusting their books quarterly for the real changes in the value of any investments. That will keep them honest in the future without destroying them in the present. Under the currently used historical cost accounting, the banks don't show that their investments in mortgages and bonds have suffered a bit because of climb-

ing rates. This is a far-reaching step and was not included in the accounting changes for savings and loans that the Federal Savings & Loan Insurance Corp. issued several months ago. The FSLIC is allowing savings and loans to amortize their losses in the future, but has not mandated subsequent marking-to-market.

Still, a number of the mutual savings banks feel that the FDIC proposal is too little, too late.

Two large New York banks—Dry Dock Savings with \$2.5 billion in assets and East River Savings with \$1.8 billion in assets—have been leading a movement for so-called quasi-reorganization accounting, developed primarily by accounting firm Main

Hurdman. "The whole purpose of this accounting is to make intelligent reorganizations possible," says Dr. Austin Murphy, East River's chairman.

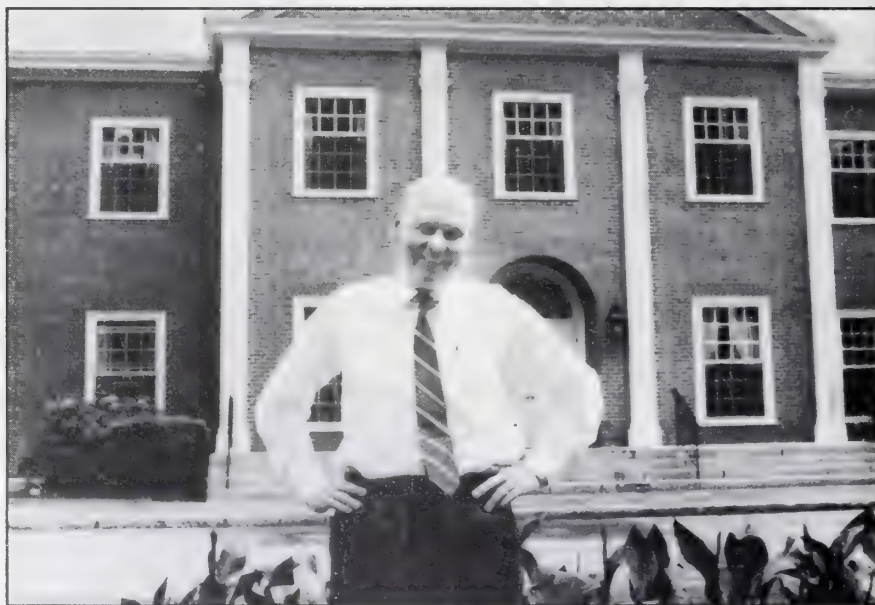
Here's how Main Hurdman's plan would work: Banks would mark their entire portfolios to market one time, counting the writeoff as a sort of goodwill on the balance sheet—no losses would be expensed right away. The banks would simply amortize those losses, just like goodwill, for some time up to 40 years, probably 25 years or so. Then, as interest rates drop, they could sell off assets without any negative effects on the balance sheet.

As a result, earnings would go through the ceiling.

That's because of the timing difference between the amortization of the loss and income that would come in over a much shorter time span as unsold instruments matured.

Let's say a bank wrote a \$100 bond down to \$70 and started to amortize that \$30 loss over 30 years. It would write off, on average, a dollar a year. But, let's say the bond was due in ten years, at which point the bank would get back its \$100. Since it had already written the value of the bond down to \$70, that's a \$30 profit over the ten years. The banks would use a method of amortization to accrue that gain, which would pick up more in the early years and less in later years. But, assuming that in an average year it would pick up \$3 and lose \$1 of amortization, that's an average profit of \$2 a year, from out of nowhere.

Some observers have been fooled into thinking that the banks would pay for this benefit in the later years,



Dry Dock Chairman Robert Steele

"If they're willing to take the hard steps, why turn their bank over?"

when they would just be writing off the loss without any matching income. *Fortune* magazine fell into that trap recently. What this overlooks, says LaVern Johnson, Main Hurdman's partner and author of the system, is that the money doesn't just sit there gathering dust: "The bank will have reinvested the earnings from the early years, more than making up for the amortization in the last 20."

East River Savings Bank has calculated that by using this system, assuming no changes in interest rate, it would show impressive earnings gains: a \$22 million profit in 1982, instead of an expected \$27 million loss; a \$17 million profit in 1983, as opposed to a \$26 million loss; and a \$16 million profit in 1984, instead of a \$21 million loss.

But the FDIC doesn't seem to like the idea of such inflated profits. It would allow the banks to hang on to current portfolios indefinitely.

That argument makes Robert Steele, Dry Dock's chairman, angry. "That's a false concern," he says, thumping the table with the side of his hand. "Nobody says that just because we set up this amortization schedule for 15 years or 20 years, or whatever, that we've got to take that long to accomplish it. If we're lucky and rates fall, sometime in the next three years, we would move to accomplish it immediately."

But might not some banks hold out for an elusive interest rate bottom? Steele: "It seems to me that any management that did not change the way it ran the business under the proposal we made would run the risk of getting right back into the same soup all over again." But Steele continues, saying that it doesn't seem fair to penalize all banks for the fear of an irresponsible few.

Steele builds his case around the fact that the kind of accounting he wants has been used by merged banks for some months now. Called purchase accounting, it has allowed banks like First Federal Savings & Loan in Rochester, N.Y., which merged with Franklin Society Federal Savings & Loan, to show huge artificial profits because of wide timing differences, even as FSLIC is pouring in a rumored \$1 million a week.

"If you allowed the merged banks to use purchase accounting," says Steele, "then why not let the banks use it before they're merged? If you have a good management willing to take the hard steps, why turn their bank over to someone else?"

Good point. But if the only way to prevent these mergers is by giving the

banks hugely increased earnings, the chances of success are slim at the FDIC. William Isaac, FDIC chairman, seems to have made that clear when he announced that the FDIC's goal was "not to bolster earnings artificially through accounting devices."

Even variations on Main Hurdman's scheme, which would bring less earnings into the banks' income

statements, haven't been well received so far. Of course, during the 60-day discussion period anything could change. A few banks going under might even help the bankers' case. But banks should probably start bracing themselves for unpleasant news.

That shouldn't be an unusual sensation for them. ■

Taxing Matters

The Nevada casino industry may soon have to come up with tens of millions of dollars in back taxes and interest.

The house always wins

By Jane Carmichael

IN THE 1934 movie *Little Miss Marker*, Shirley Temple's father, a compulsive gambler down on his luck, puts her up as collateral for a \$20 racetrack marker—a gambling IOU. His horse loses, and he drowns himself. That leaves our heroine, the collateral, in the hands of the bookmaker, Sorrowful Jones (Adolphe Menjou). Fortunately, Jones has a heart of gold. He gets married, adopts Shirley, and everyone lives happily ever after.

If only life were like the movies. Ever since 1967 the IRS has been trying to change the way casinos report markers on their tax returns, so that taxes would be paid when the markers are issued instead of when they are collected. Reason: Some \$172 million worth of markers went uncollected—and mostly untaxed—last year in the state of Nevada. In January a federal appeals court upheld the government's position in its case against the Flamingo Hilton in Las Vegas. If the decision stands, Nevada casinos will have to fork over tens of millions of dollars in back taxes and interest.

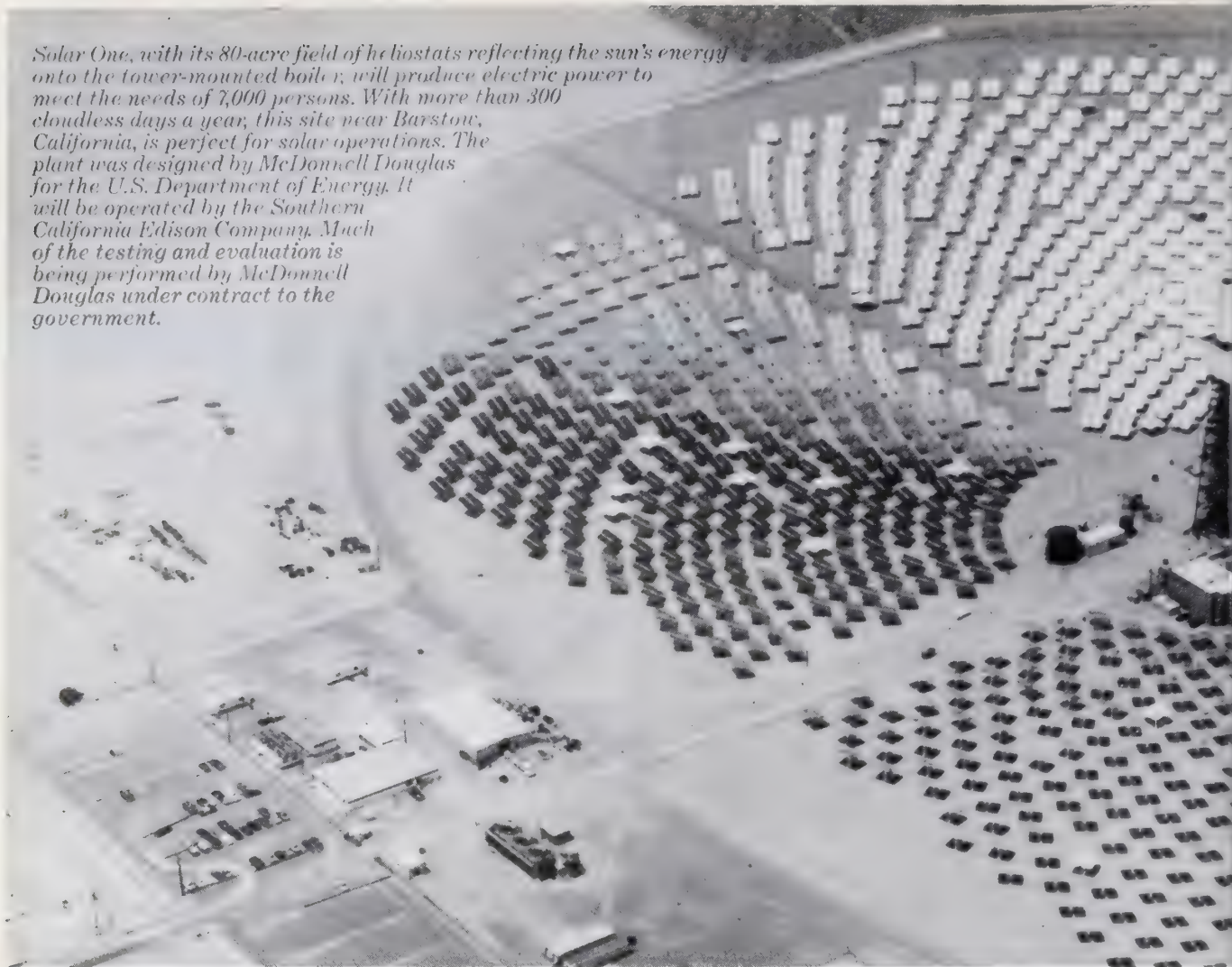
When reporting to shareholders, casinos treat markers much like department stores treat installment sales.

They report the IOUs (less a reserve for bad debts) as income when they are issued; any uncollected markers appear as casino receivables on the balance sheet. But for taxes, most casinos have been reporting markers as income only when they are paid back—even though most of those same casinos use the accrual method of accounting, under which they are supposed to report income as soon as they have a *right* to collect it.

Markers certainly seem to fall into that category. Why has this been in court since 1967 when the issue seems so clear? Because there's a quirk in Nevada law that says gambling debts are not legally enforceable. (In New Jersey they are.) So the casinos argue that they don't have a fixed right to receive payment. The government, on the other hand, says the right to collect is clear enough to require the accrual of income from markers when they are issued, and that not doing so distorts the casino's true earnings.

The legal precedents are many, and confusing. In one previous tax case the courts held that a loan shark had to accrue the interest he charged, even though it was illegal under usury laws, because he had an "existing probability" of receiving payment.

Solar One, with its 80-acre field of heliostats reflecting the sun's energy onto the tower-mounted boiler, will produce electric power to meet the needs of 7,000 persons. With more than 300 cloudless days a year, this site near Barstow, California, is perfect for solar operations. The plant was designed by McDonnell Douglas for the U.S. Department of Energy. It will be operated by the Southern California Edison Company. Much of the testing and evaluation is being performed by McDonnell Douglas under contract to the government.



“THE TURBINE IS TURNING



Solar One Program Manager Raymon Hallet talks about the world's largest thermal electric generating plant. Designed and built for the Department of Energy, Solar One is now producing electricity for Southern California Edison Company.

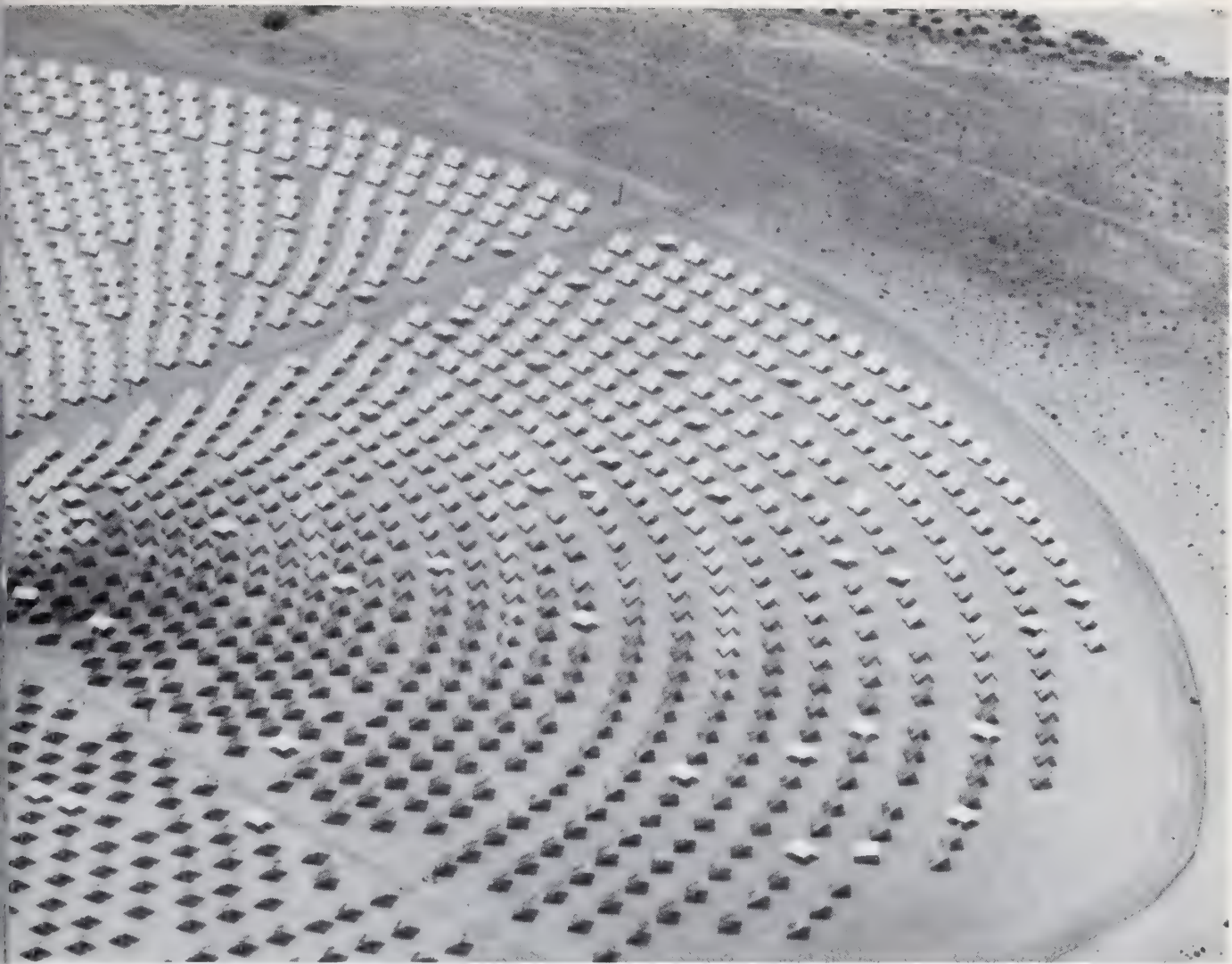
Q. What is Solar One?

A. “It’s an electric generating plant. Not an idea or a plan, but a real 10-megawatt electric power plant we’ve built here in the desert to generate power from the sun. Even though it’s impressive in concept, size and function, it’s even more important to the future of solar engineering. That’s because it will permit us to define operating characteristics of hardware and control

systems, and predict more accurately the cost of both larger and smaller systems for the future. It’s an operating plant and a remarkable engineering test facility too.”

Q. How does it work?

A. “Much like a conventional electric generating plant—with one big exception. Instead of burning coal, oil or natural gas, we use the sun’s heat to produce steam to drive the turbine. More than 1,800 computer-controlled mirrors, each twice the size of a two-car garage door, follow the sun across the sky, focusing its reflection on a steam boiler we’ve mounted on a 240-ft. tower. Steam heated to 950°F. flows to the turbine to generate electricity. Extra steam left over from the hot part of the day is piped to a storage tank where heat energy is saved to be used at night or during cloud passage.”



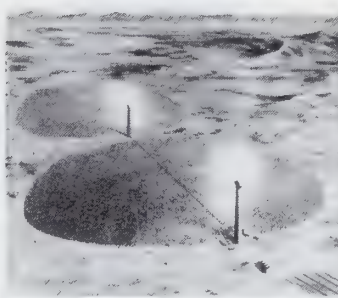
HERE AT SOLAR ONE."

Q. What about places that don't get much sun?

A. "Solar thermal power systems aren't practical everywhere, but the fossil fuel saved by using solar energy in the sun belt areas can go to meet energy needs in areas of less sun. The oil we don't use here in the Southwest means more for the Northeast, where solar plants such as this could be less efficient. The net effect is to make more power available everywhere without depleting natural resources."

Q. What happens now? Are you planning other plants like this?

A. "Not exactly like this, but yes, plants of all sizes using what we've learned here. This is like a 'bureau of standards' for other plants. We plan systems as large as 100 megawatts, and as small as one megawatt. We've designed small plants to produce steam for



Artist's concept of the planned 100-megawatt solar power plant.

improving heavy crude flow from older oil fields, saving oil now being burned to produce steam. All these plants would use advanced, easier-to-build and more economical heliostats—mirrors.

"Plants such as Solar One are efficient ways to use the energy of the sun. As financing plans develop to match our engineering, and we progress toward more efficient manufacturing and assembly, solar power will become a very attractive financial investment, and a splendid environmental investment as well."

MCDONNELL DOUGLAS



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We're big enough to do the job. Yet, we're small enough to respond quickly and accurately. We run lean. And hard.

There are no layers of bureaucracy to wade through. And no committees to hang up decisions. Or leave you hanging for an answer.

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Any assignment.

We'd like to show you what we can do.

For many companies, our size coupled with our local makes us a natural complement to their cash management system. In fact, we have the largest lock box system in the Pacific Northwest. As well as the experience and imagination to put together regional plans to accelerate receipt processing or to concentrate deposits from various banks.

But we also offer a full range of other multinational, money center services. We can help you with equipment leasing, international banking, fund and trust management syndications, or what have you.

What have you?

We believe we have what it takes to be one of your banks. We'd just like the chance to prove it. And we won't be slow about it. Even if it means pouring through a lot of numbers.

**1 SEATTLE-FIRST
NATIONAL BANK**

FOR MONEY CENTER BANKING
IN THE PACIFIC NORTHWEST.



Invisible pain

If the IRS wins its point against Nevada casinos, they will have to pay back taxes on all markers outstanding. **FORBES** took "net casino receivables" from each company's balance sheet and multiplied by 46% to reach an estimate of the tax that would be due. The blow wouldn't show up in reported profits, because deferred taxes have already been provided. But the money would have to come out of cash flow—the last column in the table. Interest would be extra.

Company Nevada casinos owned	1981 net casino receivables	Potential tax due	Tax per share	1981 earnings per share	1981 net cash flow per share
Caesars World Inc Caesars Palace, Caesars Tahoe	\$46.0*	\$21.2m	\$0.80	\$1.33	\$2.69
Dunes Hotels & Casinos Inc Dunes Hotel & Country Club	34.1m	15.7m	3.27	1.05	2.75
Hilton Hotels Corp Las Vegas Hilton, Flamingo Hilton	13.0m	6.0m	0.22	4.22	5.30
MGM Grand Hotels Inc† MGM Grand-LV, MGM Grand-Reno	11.7m	5.4m	0.17	1.05	1.52

*Not including New Jersey property. Fiscal year ends July 31. †All figures are for 1980. Fire in 1981 distorts results. Fiscal year ends Aug. 31.

Casinos certainly can expect to be paid—the Flamingo, for instance, ultimately collects on 96% of its markers. On the other hand, the Tax Court itself ruled in 1979 that Caesars Palace didn't have to pay taxes on uncollected markers, because they are unenforceable legally. The government has appealed that decision to the same court that rejected the Flamingo's appeal. You could say the dice are loaded. Next step: the Supreme Court.

The numbers originally contested in these cases are small: \$261,943 for the Flamingo, \$2.5 million for Caesars. The implications are enormous. Says Ed Getz, Caesars World, Inc. vice president for taxes, "The problem from our point of view is the precedent it sets." Look at the numbers. If the government prevails, it will probably go back and sue for back taxes all the big casinos that have been reporting this way. Likely result: The casinos will have to cough up tax on all their outstanding markers, plus interest. At the 20% the IRS now charges, that adds up fast. Caesars' January quarterly report revealed that it had already racked up \$8 million in potential interest charges—30 cents a share, as against \$1.33 a share net income last year.

The back taxes themselves won't affect reported profits, because the casinos have already set up deferred taxes for them (*FORBES*, Jan. 18). That means the taxes have been deducted from reported profits over the years, just as if they had already been paid. But deferred taxes are not a physical reserve fund, so if the government wins, the casinos will have to come up with the money out of cash flow. For at least one casino, the Dunes (47%-owned by Morris Shenker), that

could cause severe short-term problems. Its potential tax liability is greater than last year's net cash flow, so it would probably have to borrow money, sell assets or work out a special time-payment plan with the IRS.

What's more, there's an even bigger can of worms waiting to be opened. Says Tim Applegate, Hilton's general counsel, "This could really boomerang on the government. If the mere reasonable expectation of the receipt of income is sufficient for taxes, then by the same reasoning the reasonable expectation of expense is sufficient to take it as a tax deduction." Accrual of expenses is a never-ending battle between businesses and the IRS: Witness the protracted fight over whether companies could accrue

vacation expense for employees (now they can).

Getz of Caesars thinks the numbers may be big enough to affect the way casinos do business. Says he: "In the past you gave a guy a marker, and if he didn't pay you for awhile, you were out money. But now, if you're out money plus the tax liability on it, it's going to have to be a consideration before you give a marker."

But markers are so important to big casinos that they really don't have much choice. Markers, after all, are what keep the high rollers rolling into the wee hours. The Flamingo normally does about 10% of its business on markers. Last year Nevada casinos issued \$1.9 billion worth.

Why don't the casinos avoid these headaches simply by changing to the cash basis of tax accounting? Under that method, you don't have to report income until you have the dollars in hand. In fact, MGM Grand and, since 1973, the Flamingo Hilton, do use the cash basis. But in an internal proceeding, the IRS is now telling MGM Grand that the cash basis doesn't accurately reflect a casino's income.

Here's the real Catch 22. If the IRS wins and casinos have to start accruing markers as income, you would assume they could at least deduct a reserve for bad debts before paying taxes. But Milton Levenfeld, Hilton's outside attorney, says he hears the government is going to try to disallow the reserve. The reason? Says Levenfeld, "A debt must be legally enforceable for a reserve to be set up."

As any gambler knows, the house always wins in the end. ■



Shirley Temple in *Little Miss Marker* (1934)

If only life were like the movies.

Faces Behind The Figures

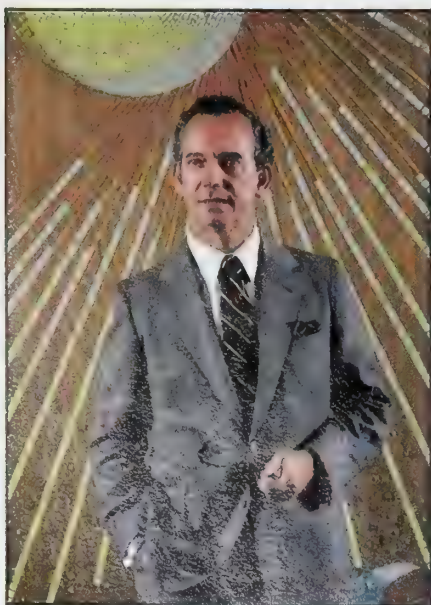
Edited by Barbara Ettorre

The \$371 million solution

At 3:59 p.m. on June 9, Charles Locke, chairman of Chicago-based Morton-Norwich Products Inc., was still formally stuck with a big drug division with no new products in the pipeline and a partner he did not like. One minute later he was rid of the headache. A deal struck with Procter & Gamble was closed, and Locke turned Morton's pharmaceutical unit over to P&G for \$371 million.

Locke used \$135 million from the P&G deal to buy out Rhône-Poulenc's 20.3% stake in Morton. The French chemical company, recently nationalized, had announced last year that the stock was up for sale—even to a potential single buyer. Such a sale, Morton-Norwich was prepared to argue in court, would violate the 1978 agreement between the two companies that was signed by Locke's predecessor. Now the old agreement has been nullified.

"The repurchase of stock alone will up our earnings by between 50 cents and 60 cents a share," says a much-relieved Locke. "Good Friday was a whole negotiating night in New York, when we finally consummated the deal with Rhône-Poulenc." Locke's



Morton-Norwich's Charles Locke
Getting rid of a headache.

voice—in marked contrast to last year's clipped rhythm—shows more of the relaxed Southern drawl of his native Mississippi.

Now, Locke, 53, says he will take the remaining \$236 million from the P&G deal, add it to about \$115 million in unused credit lines and shop for a specialty chemicals business—particularly one that fits with a Morton division that makes epoxy molding for semiconductors and integrated circuits. Best of all, he doesn't have to worry about a Rhône-Poulenc. "Getting rid of Rhône was a necessity," he says. "We could not run our business with those people."—Lisa Gross

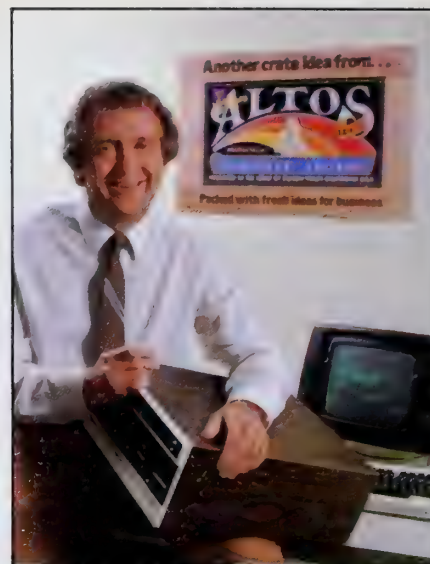
"The technology's here"

"Without meaning to, a company like Control Data Corp. can almost overwhelm a little company," says David Jackson, who knows whereof he speaks. As president of small (sales, \$52 million) Altos Computer Systems, Jackson recently underwent nine harrowing months of contract negotiations with the \$2.8 billion giant, during which teams of CDC experts scrutinized everything from floorboard to circuit board in Jackson's 250-worker operation in San Jose, Calif.

Altos emerged unscathed, with a very nice plum indeed: a deal from CDC worth \$30 million to \$50 million over the next five years to supply Silicon Valley's latest hot product, a small, powerful "supermicro" business system computer using advanced 16-bit technology. Of the companies making this product, Altos—in business five years—is the oldest. In nearby Santa Clara, Convergent Technologies has signed similar OEM (original equipment manufacturer) deals with Burroughs, NCR and Savin.

"I wouldn't like to have gone through that [scrutiny] if I had been any smaller," sighs Jackson. "We just survived." What can Altos do that Control Data can't? "What these large companies are doing is leapfrogging to the latest technology, rather than getting involved themselves," says Jackson, 44, a graduate of London University in physics, who founded Altos and still owns 70% of the company. "We don't have their marketing, but the technology's here."

Jackson's first OEM contract was a \$22 million deal last year with Moore Business Forms, which owns 5% of Altos (FORBES, June 21). But unlike Convergent, which has given pieces of the company to such customers as Burroughs and NCR, Jackson's agreement with CDC is a straight contract.



Altos Computer Systems' David Jackson
He's got the order. Next, cash.

And Jackson expects other computer companies to sign on shortly. "Control Data," he says, "establishes us as a credible OEM supplier."

Because Altos buys most of its microprocessors, disc drives and other components from others, Jackson does not have to invest heavily in capital equipment to fill the orders. But he admits that around Altos' pleasant one-story headquarters, on land once occupied by an apricot orchard, things won't be the same. He will have to hire 150 more people. He will need more working capital—for marketing, inventory and engineering—than the company can now generate. That probably means going public. "We're not running out of cash now, but in terms of what we plan to do, you bet we have to go get some money," says Jackson.

It's a familiar problem. Altos is Jackson's second company. In 1971 he had to sell his first, a maker of microfilm hardware, when he ran short of money. He bounced around for awhile, working for others, never doubting that one day he would be on his own again. "Once you've started a company," he says, "that's all you're good for in life."—Kathleen K. Wiegner

Left-handed sugar

If you're looking for a venture capital long shot, Gilbert Levin may have just the thing. Levin, founder, president and largest stockholder of Biospherics Inc., a small (revenues, \$6.4 million) research and development firm in Rockville, Md., aims to bite deeply into the massive (\$100 billion) world market in natural and artificial sugars. His key: a twist on nature called

left-handed sugar. All he needs to get, from testing up to production, is \$20 million.

Left-handed sugar (or L-sugar) contains everything natural, or right-handed, sugar does. They taste the same. The difference is in the atomic arrangements: The two sugars are mirror images. Polarized light passing through right-handed sugar is diverted to the right; through L-sugar, to the left. But unlike natural sugar, L-sugar floats past the body's enzymes and is not metabolized. Hence, no calories—a possible new sweetener.

Has Levin bitten off more than he can chew? After all, such artificial sweeteners as cyclamates and saccharin ran afoul of the Food & Drug Administration. Other sweeteners don't brown and bind in baked goods as natural sugars do. It's the latter problem that explains, in part, why Levin thinks he is on to something. L-sugar, he notes, does brown and bind like natural sugar.

Levin, 58, an environmental engineer with a Ph.D. in sanitary engineering from Johns Hopkins, founded Biospherics in 1967. He first used L-sugar (which was discovered by Louis Pasteur in 1848) as a component in a life-organism detector that Biospherics designed for a NASA space probe. In April 1981 Levin was issued a patent on the use of L-sugar as a noncaloric sweetener.

The difficulties ahead are enormous. The cost of refined cane sugar is 28 cents a pound. Fructose, a caloric fruit sugar, is 15 cents. L-sugar in a laboratory today costs about \$1,000 a pound. But Boise Cascade has developed a process to cut the cost of producing a pound of L-sugar from \$1,000

to \$2. Levin, who has just signed a licensing agreement to use the Boise process, thinks he can get the cost down from there.

It's a big dream for a company with 160 employees and earnings of only \$189,000 last year. And major hurdles remain. Testing will take from three to five years and FDA approval, if it comes at all, could take several more.

Still, visions of goodies sweetened with Lev-O-Cal (Levin's brand name for L-sugar) dance in Levin's head. "Sure, it's a long shot," he says cheerfully. "But if we pull it off, we could be a billion-dollar company."—Robert Teitelman

Visa versus SEC

"You're going to see the damndest fight you ever saw if anyone tries to stop us," Visa USA President Dee Hock thundered when he announced Visa's plans to enter the money market fund business. That was a year ago. Now Hock is lacing up the gloves.

In May the SEC staff told Hock that it would not approve Visa's proposed entry into the money market fund game. Hock then fired off an advisory letter to Visa's 12,000 member institutions, mostly banks and S&Ls, exhorting them to pressure their congressmen to lobby hard at the SEC to reverse its position. Now, Hock is petitioning for a full hearing before the commissioners—most unusual in a securities registration case.

Hock is positioning himself as defender of the small and medium-size banks. He reminded them in his letter—as if they needed it—that big money market funds have drawn over



Visa USA President Dee Hock

Taking on the "faceless cabal."

\$190 billion from the nation's communities and the banks that serve them, and the largest money funds have reinvested the bulk of those assets in only ten banks in four U.S. cities. "You know your customers would rather do business with you than with some faceless cabal in a big city," Hock jabbed. He also has sent out a booklet, *The Great Bank Robbery*.

Since that letter, of course, the cash has kept flowing into the money market funds—the total now exceeds \$200 billion. Visa's proposal works like this: If today the First State Bank of Omaha takes in \$100,000 for the Visa fund, tomorrow the fund will buy a \$100,000 CD from the Omaha bank. Thus the money stays in Nebraska, instead of passing through a New York-based money market fund likely to buy CDs in money center banks in New York, Chicago, Los Angeles and San Francisco.

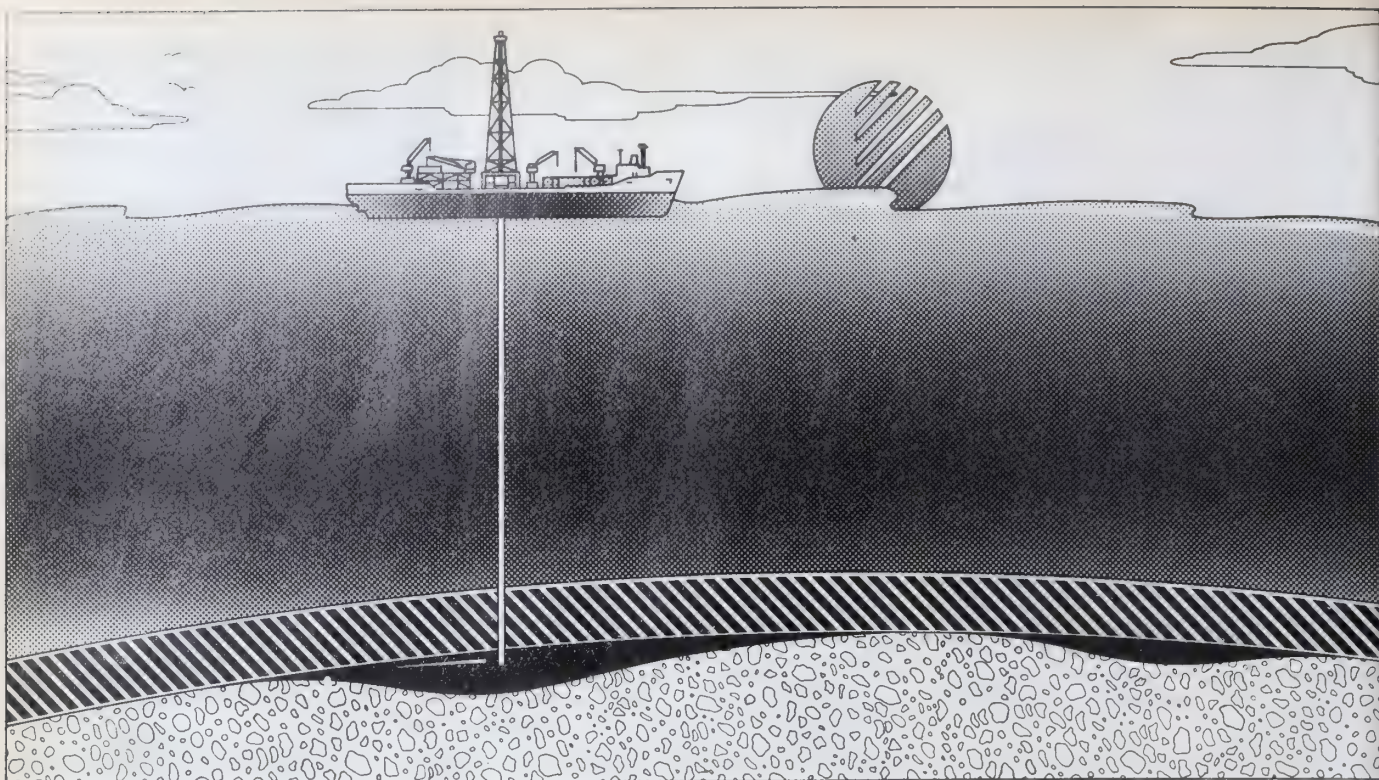
The SEC hasn't publicly spelled out its objections to Visa's idea, but the problem appears to be Visa's pat formula for investing—proportionately buying CDs from banks that channel money into the fund. It doesn't like the idea that the Visa fund would automatically buy CDs from the very banks that own Visa, and thus ultimately control the fund.

Taking one last swing, Hock adds, "Who should decide whether the Visa Money Fund is a good investment for the individual? Should it be left to the money fund promoters or to a government agency?" In a few weeks that "government agency" will decide whether it wants to hear Hock's plea in person.—John Merwin



Biospherics President Gilbert Levin

Sweet dreams.



What do you call a company
that holds the world record for drilling
in deep water?

SONAT

Sonat Offshore Drilling's *Discoverer Seven Seas* drillship completed an exploratory well in almost 5,000 feet of water, 200 miles off Newfoundland. A new world record for deep-water drilling.

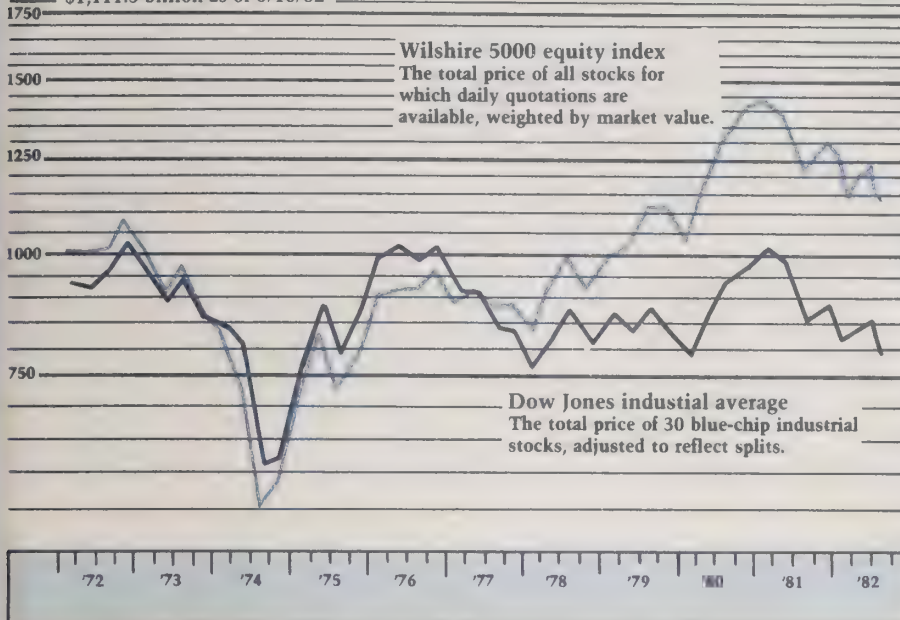
But exceptional performance is nothing new for Sonat. It's a tradition that goes back many years. Our earnings-per-share record is one that few companies can match: growth every year since 1959 at a compound annual rate of 14%. Our uninterrupted dividend record goes back 45 years.

Sonat has revenues and assets of over \$2.6 billion. Our operations across the U.S. and overseas include: Southern Natural Gas, Sonat Exploration, Sonat Offshore Drilling, Sonat Marine, and Southern Forest Products.

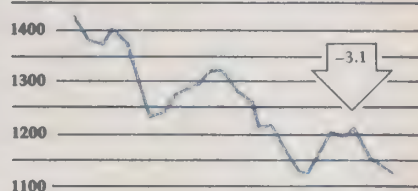
To learn still more about us, write: Sonat Inc., Corporate Communications, Dept. FB-7/5, P.O. Box 2563, Birmingham, Alabama 35202. Telephone: 205/325-3800 or 212/344-7955. Ask for our annual report.

The Forbes/Wilshire 5000 Review

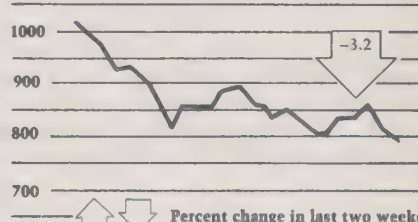
Market Value of Wilshire 5000:
\$1,111.5 billion as of 6/10/82



12-month Wilshire close-up



12-month Dow Jones close-up



Percent change in last two weeks

I A S O N D J F M A M J

Swept away. Almost all the gains from the spring rally are now gone. The market as measured by the Wilshire index lost 3.1% of its value over the last two weeks, 7.8% over the last four weeks. The price tag on the four-week decline—over \$101 billion in market value. The NYSE and the Dow industrials indicators show about the same two-week and four-week setbacks as the Wilshire index. The NASDAQ and Amex indexes were hit somewhat harder. In the most recent two-week period the NASDAQ index fell 3.9% and the Amex slipped 4.3%.

Over the past 52 weeks the Amex is off by almost 31%. Much of this decline can be attributed to oil-related is-

ssues. The Dow, in contrast, has been a pretty good gauge of Wall Street activity over the past year. This 30-stock index is behind 20.7% while the Wilshire, which currently contains 5,151 issues, is behind 20.5%.

Over the last year, many of the market focus groups declined more than the overall market. While the Wilshire index is down 20.5%, high-P/E stocks, for example, are off 30.2% and high-volatility issues are off 22.7%. Only low-volatility issues have been able to stay marginally in the black, with a 0.8% gain. The relative strength of this group comes largely from utility stocks and other defensive-type issues.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	-7.8	-7.0	-7.7	-8.9	-8.7
in last 52 weeks	-20.5	-20.7	-18.9	-30.9	-22.9

Stock performance based on five key investor yardsticks

Percent change	Volatility*		P/E multiple		Dividend yield		Growth profile†		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	-10.5	-3.3	-9.8	-7.9	-4.9	-7.2	-9.0	-4.6	-8.4	-7.5
in last 52 weeks	-22.7	0.8	-30.2	-9.9	2.5	-15.6	-19.2	-6.9	-19.6	-18.6

*A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.

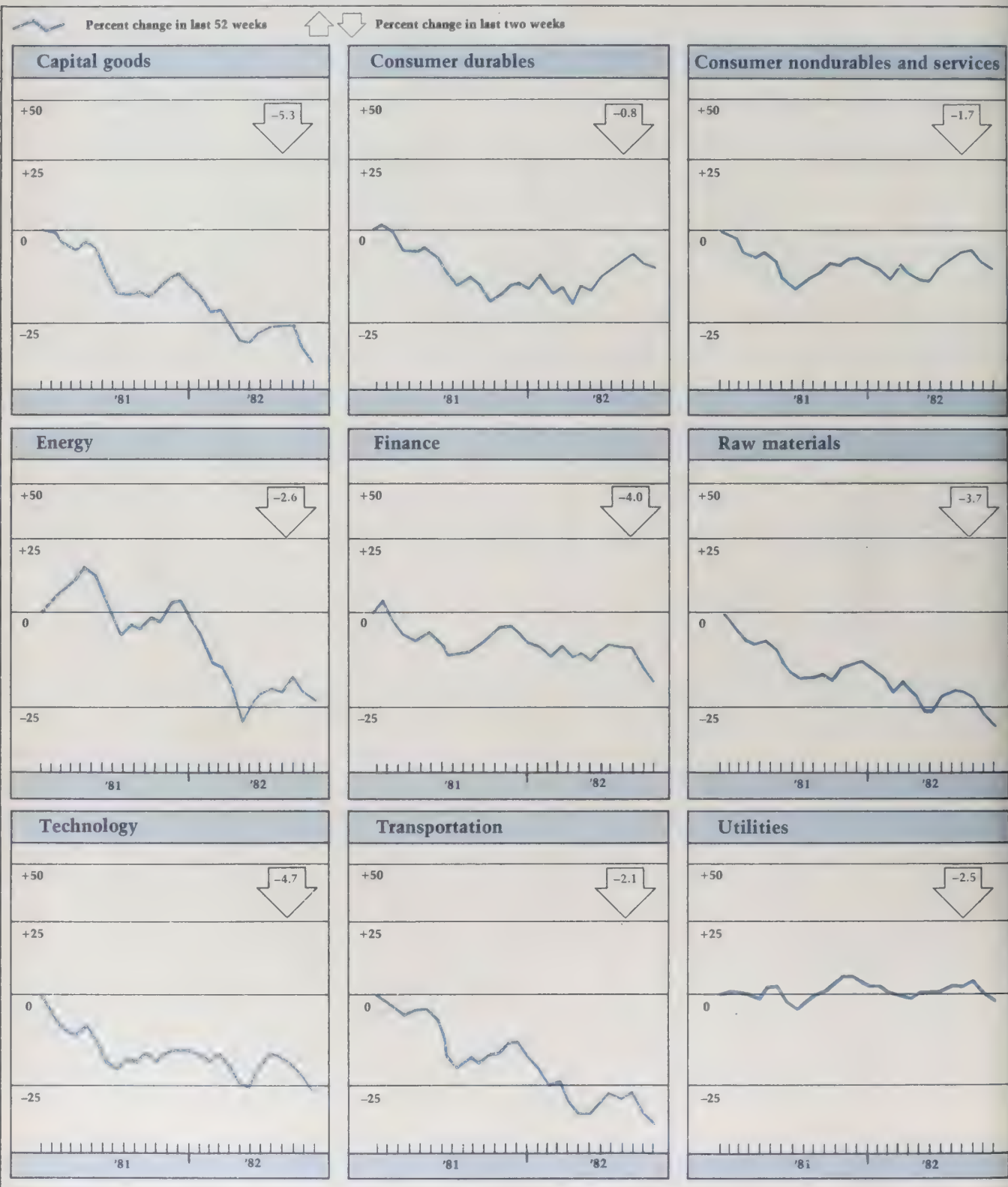
†A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 6/10/82. Prepared by Wilshire Associates, Santa Monica, Calif

Losers everywhere. All nine sectors declined during the recent two-week and four-week periods. On a two-week basis the biggest losses were registered by capital goods, off 5.3%, and technology, down 4.7%. Over the last four weeks capital goods again shows the greatest decline—an 11.5% drop. Hard hit, too, were the finance sector, with a 9.7% loss, and raw materials, down 9.6%. The two consumer sectors show the strongest performance, relatively,

over the last two weeks. Consumer durables lost only 0.8% and consumer nondurables and services 1.7%.

All nine sectors now show losses over the past 52 weeks. The biggest setback is in capital goods, which is now behind 34.2%. Even the utility sector, which had been bucking the negative trend, is now 1.3% in the red. The only other groups that have lost less than 15% over the last year are the two consumer sectors.



Note: All data for periods ending 6/10/82. Prepared by Wilshire Associates, Santa Monica, Calif

Report from Number One Wall Street

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Vice Presidents Nancy McEwen and Gary Chace: two reasons why Irving Trust is a leader in loan syndications for public utilities.

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Unique. Worldwide.

The Money Men

Michael Stolper won't manage your money. But read this and he will tell you how to find someone good who will.

Check the middle of the list

By Jean A. Briggs

MICHAEL STOLPER claims to be an expert at investing. But he doesn't pick stocks or tinker with portfolios. Instead, for a fee, he helps clients select outside money managers. Then, for another fee, he monitors their performance. Stolper's San Diego-based firm serves small investors—individuals with a minimum of \$100,000 and institutions with no more than \$5 million. "You might say I'm the A.G. Becker of the proletariat," he quips.

Playing that role isn't as easy as it sounds. Even though Stolper has interviewed hundreds of money managers over the years, he now recommends only 12. He refuses to provide names—"taking bread out of my own mouth," he explains—but the list reportedly includes New York's Atalanta Capital Corp. and Kirr, Marbach & Co. of Columbus, Ind. Stolper will discuss, however, how he makes his selections. That's useful background for anyone who keeps a portion of his assets under professional management.

Stolper doesn't bother much with investment philosophy—other than to make sure clients and money managers see eye-to-eye about risk and overall objectives. He's primarily concerned with performance, and the trickiest part of his job is getting accurate information.

At the least he wants the managers he recommends to have stayed comfortably ahead of inflation with money they have handled for more than three years. But it isn't always easy to get an accurate measure. "People can be quite selective about what they tell you," he explains. "If equities have



Mike Stolper at ease in San Diego
"The A.G. Becker of the proletariat."

done well, for example, you'll see that record. Otherwise they'll concentrate on balanced accounts."

Beware, too, of the so-called model portfolio. "There's no reason a particular stock can't be backed out to the benefit of overall performance," says Stolper. His advice: Understand criteria thoroughly and ask for audited results, if available, and references. Get a list of five clients and then call them. "Start at the bottom or in the middle, not at the top, where the most favorably disposed client is likely to be. Most people will be willing to talk, especially if their experience has been good. Otherwise, you may have reason to be suspicious."

Stolper is particularly interested in how well the money manager did during the last major market decline—back in 1974. In fact, he won't recom-

mend one that wasn't in business at that time. "It's easy to do well when the market goes up," he says. "When it goes down the manager of a big pension fund can say to the committee, 'Look, the market was off 20%, my portfolio was down only 16%.' When you're talking about an individual and money that may represent his net worth, that's a different story. He'll have your neck in a noose."

To protect against such debacles, Stolper thinks money managers should move at least 50% of their portfolios into cash whenever quarterly performance shows a 20% decline from its record high. He doesn't make that request himself, however; he recommends that his clients do it directly. If the firm doesn't go along, Stolper advises transferring the account. Money managers, he says, should follow orders.

Besides performance, Stolper is also concerned about things like size, since his median account is a mere \$500,000 or so. Sometimes managers outgrow him. "If a manager is good, his minimum may escalate out of our range," he explains. On the other hand, Stolper is wary if the amount of money a firm has in its equity accounts rises above \$500 million. That means hiring more managers, and Stolper is convinced small accounts usually go to the least experienced people.

Size, in fact, turns Stolper off completely when it comes to bank trust departments. "They're employers of last resort for M.B.A.s," he explains, adding that he will not even recommend Fiduciary Trust Co. of New York, although he is impressed with its performance. "Fiduciary handles more money and has a bigger staff than we are comfortable with."

Stolper, 36, is a former stockbroker whose second career began in 1970, when he got a call from an uncle who wanted to invest some money. He asked for help finding a money manager, and Stolper began to look. "I had plenty of time," he quips.

After considerable frustration, Stolper and his uncle decided on Janus Capital Corp. in Denver. "We picked it because we knew one of the principals," he says. "We could have been blind-sided." Quite the contrary. Since then, Janus has piled up gains of over 350% and Stolper still recommends the firm.

After he saw how difficult the evaluation process was, Stolper set up his current business. Today Stolper & Co. has about 210 clients, including the Audubon Society of Maine and two Indian tribes. Together, their assets

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NCR automated transaction processing makes it possible. When a shop document is scanned the data is electronically transmitted to the main processor where it becomes vital information. NCR source data equipment handles the digital details so shop floor personnel don't have to become computer experts.

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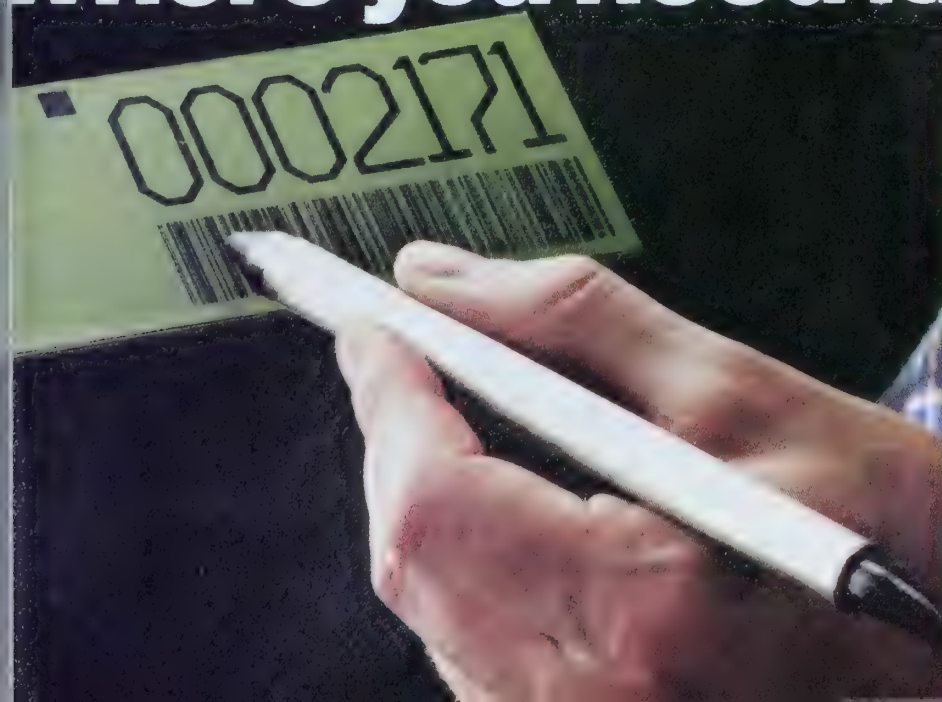
Today electronic transaction processing systems are making the job easier for the people who enter data for the people who need to know how. It's not only happening worldwide in the manufacturing area but also in other areas of business. And behind these systems are 16,000 trained field engineers to insure trouble-free operation.

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The Money Men

come to about \$200 million. In addition to initial fees, which usually range between \$500 and \$1,500, he charges \$500 a year to monitor perfor-

mance. His clients, of course, also pay conventional money management fees, which Stolper believes are a bargain, even if they are as high as 2½% of assets—as long as the money manager is doing a good job.

Is Stolper's advice a good buy?

FORBES telephoned a sample of his clients and they seemed pleased—even those in the middle of the list. There's no reason, of course, that anyone can't use Stolper's selection techniques on his own and be just as satisfied. And perhaps \$1,500 richer. ■

If all you looked at was the profit and loss, the merger of McDermott and Babcock & Wilcox seemed to be a mistake. The fact is, it has been paying off right from the start.

Two of a kind

By James Cook

THE 1978 ACQUISITION, by New Orleans-based McDermott Inc., of New York's Babcock & Wilcox seemed cursed from the start. The merger united an old-line builder of utility boilers with a brash young fabricator of production platforms for the offshore oil industry. Where was the synergy in the combine? Well, both were energy service companies—oil and gas services for McDermott, utility power plant services for B&W. But the fit was even more basic than that. "We are both metal benders," McDermott Chairman James Cunningham likes to say. "Boilers or platforms—what's the difference?" In an odd way, two of a kind.

But a gruesome twosome, to all appearances. B&W hadn't come to the altar willingly. It married McDermott only after Harry Gray's United Technologies made a pass at it (and got slapped down) and then only after McDermott paid a fat dowry: 12 times earnings, \$750 million, half in cash and the rest in preferred and convertible debentures.

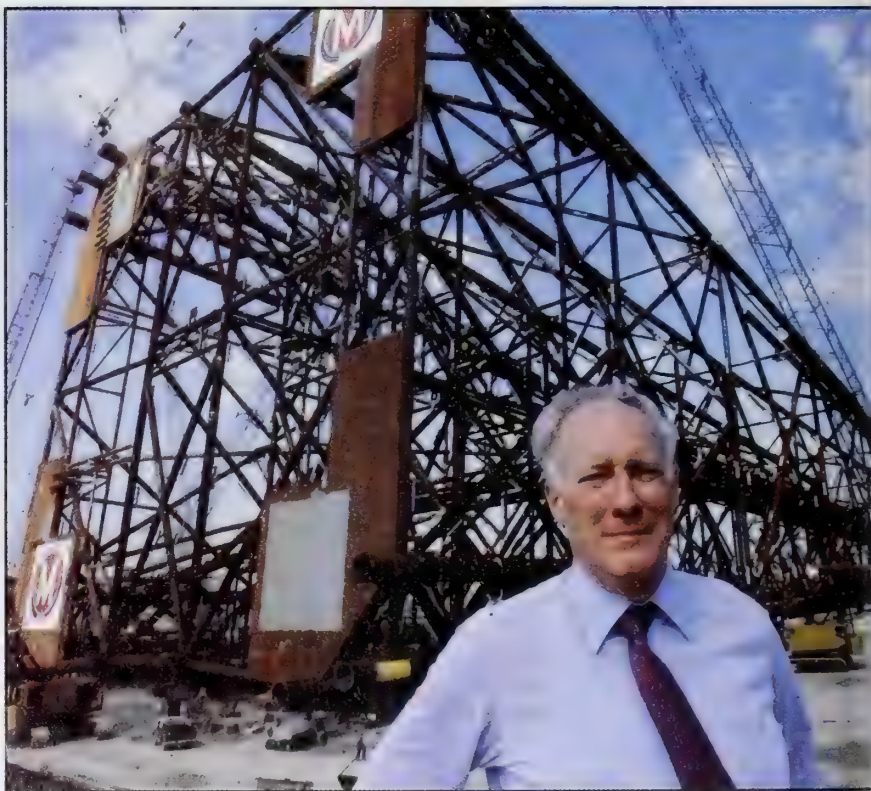
From there, it was all downhill. Eleven months later, McDermott was hit with \$4 billion in lawsuits resulting from the accident at Three Mile Island, the General Public Utilities' nuclear power plant equipped with B&W steam generators. That came on the heels of a series of scandals that shook McDermott itself—price-fix-

ing, bribery, illegal political contributions. These scandals nearly put several executives in jail and brought Cunningham, a chemical engineer and a 21-year veteran at McDermott, into the CEO spot years ahead of time.

Along with co-conspirator Brown & Root, McDermott pleaded guilty to fraud, racketeering and price-fixing, paid \$1 million in fines and provoked a raft of oil company lawsuits.

At the same time, the merged company's earnings went to pieces. As against the \$192 million, or \$6.11 a share, McDermott earned in 1976 on its own, by 1978 the two companies together were earning less than \$93 million—\$1.94 a share. And earnings stayed down until 1981.

Was Jim Cunningham discouraged? Not a bit. As he sees it, the B&W acquisition turned out even better than he had hoped. At the time he took on B&W, McDermott's platform construction cycle was headed downward; he hates to think what the earnings would have been without it. "We'd have been mostly in the red in the last two years if we hadn't had Babcock," Cunningham says. And he's right. B&W contributed all of McDermott's fiscal 1980 operating earnings, 95% of 1981's and 85% of



McDermott's Jim Cunningham and an offshore production platform
Who said boilers and marine construction don't mix?



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Production workers at Bendix do Brasil in Campinas, Brazil

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From the client's point of view.

1982's. That, he explains, was one reason McDermott wanted Babcock in the first place.

The present McDermott—J. Ray McDermott & Co., as it used to be called—was one of the first big beneficiaries of the energy crisis. When the 1973 oil price explosion touched off a worldwide boom in oil exploration, McDermott's skills in building offshore production platforms became a hot commodity. McDermott became a really big company overnight. Its sales and earnings doubled and redoubled, and, as the drilling cycle peaked out, its cash flow turned into a veritable flood. "We were going to have to put the cash flow somewhere," Cunningham says. "So we started looking around. I'd been watching Babcock for many years." The alternative was several years of profitless operations while the drilling lull lasted and, though Cunningham discounts it, the vulnerability to takeover that any cash-heavy company has when its earnings and stock price turn down.

So, despite the raw profit numbers, the merger has paid off right from the start. B&W not only remained profitable when McDermott lost money, it provided the \$600 million in cash Cunningham needed to keep McDermott's marine construction operations competitive. It also threw off over \$200 million that Cunningham used to reshape and modernize B&W itself, closing old plants and expanding its foreign operations. Last year earnings finally recovered. McDermott earned a record \$213 million, or \$4.98 a share, on \$4.8 billion in sales.

For McDermott, B&W's strength lately hasn't been in its traditional utility-boiler business. That peaked out two years ago, and Cunningham sees little prospect of a pickup before 1986 or 1987. Instead, McDermott has been cultivating the big and growing market for services on the 910 B&W utility boilers and the 16,900 industrial and marine boilers currently in operation—upgrading, engineering, retrofitting, maintenance and parts supply. Such sales topped \$450 million last year, up from \$150 million four years ago. Cunningham expects they will hit \$1 billion within a few years. "It's as good and as profitable a business," he says, "as the boiler business was."

But an even bigger payoff has come from B&W's oil country goods. McDermott and Babcock, it turned out, were really in the same business. B&W's tubular products division not only makes tubes for utility boilers, it makes the pipe and tube the petroleum industry uses in drilling, pro-

ducing and transporting oil and gas. When drilling activity exploded after the 1978 oil price increases, demand for B&W's tubular products took off. Onshore, the drilling boom has peaked out temporarily, so B&W's tubular product sales are off sharply. But Cunningham says that's the beauty of the merger: You drill first and then set up a platform, so there's about a two-year lag between the peaks in the drilling and platform construction cy-

"We'd have been mostly in the red in the last two years," Cunningham says, "if we hadn't had Babcock."

cles. Thus, though onshore drilling is off, McDermott's offshore platform business continues to hold its own. "Marine construction isn't that built up even now," Cunningham says. "If it were, our earnings would be considerably higher than the \$200-odd million we earned last year. Just by itself marine construction has the capacity to earn probably three times that in today's market."

Cunningham isn't forecasting that McDermott will necessarily do that. With a fiscal year ending Mar. 31, Cunningham doesn't really know yet

how fiscal 1983 will shape up. But he's confident marine construction will be strong enough at least to offset any decline in tubular products.

As part of his goal of building a broad-based energy services company (and incidentally duplicating the spread of services competitor Brown & Root can offer), Cunningham tried in mid-1980 to take over Pullman and its Kellogg onshore engineering and construction subsidiary. Wheelabrator-Frye beat him to it, but Cunningham's ambition remains. The pressure to acquire something will soon begin to mount. "We don't have an abundance of cash at the moment," he says—the \$500 million in cash McDermott has retained overseas can't be repatriated without paying taxes—"but we always end up cash-heavy at the end of the marine construction cycles." So two or three years from now. . . .

Cunningham scoffs at reports that any buildup in McDermott's cash exposes McDermott to a takeover—from the likes of Dresser Industries, for example, which has been rumored interested in the past. "Every time the stock goes down," Cunningham says, "someone starts a rumor and puts the stock up again." But as Cunningham is aware, these days McDermott would make quite a prize. ■

Most real estate investors aim to buy and hold. Gene Phillips is winning with a different philosophy. He likes to buy and sell.

REIT revisited

By Pamela Sherrid

GENE PHILLIPS is a soft-spoken South Carolinian who is breaking lots of traditional rules about how to make money in real estate. To begin with, he is a shy, controlled man who stays at Holiday Inns on business trips and has a low-key lifestyle—hardly a typical real estate tycoon. In 1980, however, Phil-

lips gained control of Southmark Corp., a renamed entity that was once a troubled real estate investment trust run by Atlanta's Citizens & Southern Bank. Since then profits have more than doubled, total equity has increased by \$100 million—and Southmark's stock price has tripled.

Phillips has made that bundle by bridging the worlds of Wall Street and real estate. Like a corporate liquida-

What are America's having for dinner?

Poor nutrition is a problem that affects more and more older people — regardless of income level.

Here's how ARA is working to solve it.

Care of the elderly used to be much more a family affair. When it was common to find three generations living together in the same household, grandparents could count on younger family members to help with chores like shopping and cooking.

Society has left the elderly behind.

As America has become a society of smaller families and smaller homes, there's often little room left for the elderly. At a time when

our older population is larger than ever before, the traditional support system once provided by the extended family is vanishing.

Nutrition a casualty of change.

Studies have repeatedly shown that, when the elderly are left on their own, their diets suffer. This problem is due less to shrunken incomes than to a host of other factors.

Older people are not as active.

Their appetites are often not



grandparents tonight?

As sharp, their senses of taste and smell often less keen, their digestive ability not what it once was. Loss of teeth and ill-fitting dentures can make eating an ordeal. And, for widowed husbands or wives, the idea of eating alone is very depressing.

Health can suffer.

But even though their need for calories is less, the elderly still need as many vital nutrients as younger people. If their diets are deficient in vitamins, proteins, and other nutrients, severe physical and mental problems can arise.

How ARA is helping.

Faced with this growing problem, ARA Services has developed a number of solutions.

As one of the nation's leading food service companies, ARA pioneered the development of the federal government's "congregate dining" program that brought hot meals to the elderly at community centers and other convenient locations. Under Title III requirements, these meals must provide at least $\frac{1}{3}$ of all daily nutritional needs and are usually the main meal of the day. This unique service not only provides important nutrition; it also encourages the elderly to meet and make friends.

Meeting special needs.

ARA also serves hundreds of retirement centers and nursing homes throughout America by providing on-site food service.

In many cases, ARA draws upon its long experience in hospital food service (it was the first company to offer such a service) to meet the needs of patients whose medical condition dictates special diets.

An even more demanding future.

The nation's elderly population is steadily rising and will continue to rise—at least until the Baby Boom generation passes retirement age. As it does, the challenge of feeding our older citizens will become even more demanding.

As a leader and pioneer in the food service industry, ARA has the resources and experience needed to meet this challenge.

A society can be judged by the way it takes care of its elderly; ARA is doing its best to help make sure that our society meets that test.

For more information write: ARA Services, Inc., Dept. A, Independence Square West, Philadelphia, PA 19106.



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At the cutting edge of change.

tor, he buys control of troubled real estate companies and sells off their assets—for well above his acquisition cost—to syndicators, developers and foreign investors. Southmark also syndicates properties on its own and converts apartment buildings to condominiums. Phillips, a 43-year-old chessplayer, isn't interested in buy-and-hold investing. He wants Southmark to be unique—a real estate trading company. "Our business is buying property, doing something to it and selling it," he explains.

The career that brought Phillips to his current job is something of a business fantasy, featuring an unhappy past and an angel on Wall Street. A carpenter's son, he began by building and selling houses during school vacations. After getting a chemical engineering degree from Clemson, Phillips formed his own development company in 1969. Just four years later, he had too many projects under fixed-price contracts and was forced to declare bankruptcy. "It's a terrible embarrassment to him," says an associate.

When he went under, Phillips owed money to a lot of people in the Carolinas. One creditor, a supplier of lumber, demanded that Phillips work for him to pay off the debt. "It was a kind of indentured servitude," says William Friedman, a lawyer who later became Phillips' partner.

Eventually, Phillips bought out the lumber dealer's real estate operation. He built his second company, called Syntek, by buying and selling completed properties—the same strategy he's now applying at Southmark. It worked beautifully: At its peak, Syntek controlled more than \$200 million in real estate.

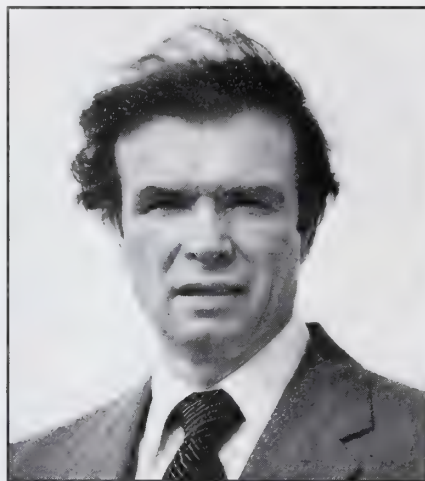
That was in 1978, and Phillips, who thought that the market was peaking, started selling his holdings. His objective was to cash out and reinvest in a public real estate company with a tax-loss carryforward.

Phillips zeroed in on Southmark. Two years after his own troubles, the former mortgage lender had teetered near bankruptcy and foreclosed on dozens of properties. When Phillips started buying its shares in 1979, Southmark was a mere caretaker operation, stifled by a restrictive agreement with lenders. "The company couldn't do anything but sell properties and pay off banks," he recalls.

What Phillips saw was opportunity, however. First of all, he figured that Southmark's remaining assets were worth a lot more than the company's \$90 million book value. Its tax-loss carryforward was \$125 million. Finally, Southmark had thousands of out-

standing warrants, which gave Phillips a way to gain control without driving up the price of the stock.

Taking over Southmark, however, was a financial juggling act. Phillips had until October 1980 to exercise his warrants—but he didn't have enough cash. That's how Robert Allan Martin became a major Southmark shareholder. Martin is a Wall Street trader, and he and Phillips have a relationship most venture capitalists only dream about. It began when Martin, a tax-shelter investor, lost several thousand dollars in Phillips' 1973 bankruptcy. All the same, he had lent Phillips \$1.3 million in 1977 to buy out Syntek. "I was amazed at what he had built in the interim, after being down to zero," Martin says. By 1978, how-



Southmark Chairman Gene Phillips
Free from indentured servitude.

ever, Phillips had paid back the loan, and the two lost touch.

Then, on Labor Day 1980, one month before the warrant deadline, Phillips telephoned Martin at home during a football game. He asked for a \$12 million loan. "I said no," Martin explains. "But Gene said he'd send the papers over anyway. When I saw them I realized that he had prepared a brilliant, fascinating play. So I decided to help him raise the money."

Martin took Phillips to Allen & Co., to institutional lenders, to major banks. But no one wanted to help Phillips, an upstart newcomer with a checkered past. "I thought, this is awful," says Martin. "So I reached down in my pocket and gave Gene \$5 million. He had figured out a way to do the deal for less."

Phillips, who now holds 40% of Southmark's stock, became the company's chairman. He began by arranging new financing to free the firm from its restrictive loans. Then he started selling—18 properties, about half of Southmark's assets, for \$96

million, more than twice book value. Southmark gets only a portion of its sales price in cash, but Phillips is unconcerned about holding notes for the remainder. "Once we have the money, there's nothing we would like better than getting any of our properties back," he asserts.

In any case, Phillips isn't just holding a one-time liquidation sale. By adding the proceeds of a \$40 million note to Southmark's sales income, he has spent \$200 million on new real estate investments. Some of the money went directly into bricks and mortar, but the bulk went to buy controlling interests in other ailing REITs, including American Realty Trust, Novus and North American Mortgage Investors, where he is repeating Southmark's profitable asset sales. With a public company, Phillips also has new financial flexibility: After purchasing Lexton-Ancira, a Kansas City syndicator, he used preferred stock to buy out the limited partners.

Meanwhile, Phillips wants more of Southmark's income to come from mortgage receivables, syndications and condo conversions—a more stable source of revenues than big one-time sales. Even then, of course, risks abound. "With high interest rates, the supply of investment dollars is declining every month," he admits. There's also the question of whether the real estate Phillips is buying today will be the right assets to sell in a year or two. At the moment, for instance, he has a large portion of his holdings in apartment buildings.

Phillips gets criticism for more fundamental reasons, too. "Nobody ever created value over time by buying and selling real estate," says Ed Turville of Robinson Humphrey/American Express. "You do it by holding income producing properties." One inside sees another danger: Southmark's management may be so transaction oriented that the company might make bad deals just to keep busy.

Some investors, however, have been happy betting on Gene Phillips' keen eye for real estate and his ability to structure lucrative deals. Martin, for one, still holds 250,000 Southmark shares, after having more than doubled his money on the 750,000 he sold back to the company. Southmark has a market value of \$90 million—one-third its book value—and a conservative debt-to-equity ratio of 1.3-to-1. "Gene has learned not to become overextended," says Martin. "Other people saw his bankruptcy as a negative, but that's one of the things I liked. Unless you've been through that experience, it's just conversation." ■

Its Milwaukee neighbors struggle to modernize today, but Johnson Controls is thriving because it did so yesterday.

Bright spot

By Kathleen K. Wiegner

SOMETIMES YOU HAVE TO fill a need, not simply follow a market. If President Fred Brengel of Johnson Controls Inc. had not pushed the company's heating and air-conditioning controls business into the computer age some 15 years ago, Johnson today would be like so many of Milwaukee's old-line manufacturing firms, struggling with plant closings and layoffs. Instead Brengel presides over a thriving company that last year posted record sales of \$1.1 billion and near-record earnings of \$48 million. This year looks even better: Sales are estimated at \$1.3 billion, net around \$50 million for the fiscal year ending Sept. 30.

Brengel, 59, a mechanical engineer who joined Johnson's sales department in 1948, became president in 1967 as building controls were undergoing a change from electromechanical to electronic devices. He pushed computerization, and by 1972 the company had introduced the first minicomputer-based system to run a commercial building.

The timing was excellent. Two years later the price of energy took off, making it economic for building owners to install systems priced from under \$50,000 to \$3 million to reduce utility bills. Had Brengel waited for the energy crisis to push computerization—and make no mistake, he says, it “was a costly business”—Johnson would have been behind as it battled computer giants and entrepreneurial tinkerers in the booming Seventies market for energy-saving devices. Instead, it is the leader, along with Honeywell—each has a 30% market share—in the \$3 billion automated building controls market. (Honeywell, which also makes residential

thermostats, has sales of roughly \$1.2 billion in controls; Johnson has \$548 million.)

But Honeywell turned itself into a computer company in the Sixties. How did Brengel compete against them, let alone against IBM, which also sells into the building automation market? “Computer people knew computers,” explains Brengel, “but not buildings. We knew buildings and learned computers. Buildings, you know, are not straightforward—no two are alike.”

Free from ties to any specific com-

puter, Johnson can pick and choose the hardware for its control systems for environments as different as New York's Rockefeller Center and the United Nations Building, Chicago's Watertower Place and San Francisco's BankAmerica Building. For smaller customers it offers a time-sharing service in which more than one building is controlled by a central computer located elsewhere.

Brengel's 15-year tenure at the top hasn't been all roses. In 1978, seeking a balance to protect Johnson from earnings downturns during construction slumps, Brengel acquired Globe-Union, the U.S.' largest manufacturer of automobile replacement batteries (makers of the Sears DieHard). What happened? The acquisition penalized Johnson's earnings in 1979 and 1980, when strikes, rising lead prices and falling demand hit one-two-three. Now back to normal production, the battery business should provide roughly 40% of Johnson's sales and operating income this year.

As it turns out, Brengel found adequate compensation for construction downturns in the modernization of old buildings' heating and air-conditioning systems. As computers get smaller and cheaper, more building owners can justify automating because of the payoff in energy savings. “Seven years ago,” says Ronald Caf-



Johnson Controls President Fred Brengel

Knowing computers is important, but knowing buildings is better.

frey, vice president for systems marketing, "only buildings 200,000 square feet and above could use automatic systems. That limited the market to maybe 15,000 to 20,000 buildings. We can now justify doing 50,000-square-foot buildings, and that opens the market up to 200,000 existing structures."

The 97-year-old company—begun with Professor Warren Johnson's invention of the thermostat (*see be-*

low)—is also expanding its presence in commercial buildings by offering computer systems for fire control and security. The MGM-Grand, gutted by fire in 1980, reopened last summer equipped with \$1.3 million worth of Johnson's fire control gear. NASA's Kennedy Space Center uses a Johnson security system.

While other fine old Milwaukee companies—Harnischfeger, Rexnord, Allis-Chalmers—cope with troubled

times, Brengel has relatively few worries about Johnson's future. He even seems sanguine about Victor Posner's 11% ownership of Johnson Controls, resulting partly from the Globe-Union acquisition. Does Brengel plan to buy out Posner at a premium, as other threatened CEOs have done? "As of now," he says with a smile, "I'd rather have the money than our stock back. I'd just feel better with money now." ■

Inveterate inventor

Maybe it's impatience that is the mother of invention. In the 1880s Warren S. Johnson, a professor of natural science at Wisconsin's Whitewater State College, got tired of ringing a bell in the furnace room every time his classroom grew too hot or too cold. So he connected electrodes to a mercury thermometer, causing the classroom's dampers to open and close automatically as the temperature fell and rose, and thus invented the electric thermostat.

With the help of Milwaukee financier William Plankinton, Johnson then organized the Johnson Electric Service Co. (renamed Johnson Controls in 1974) to market his invention. Soon Johnson thermostats had taken the world by storm. By 1890 burghers in Berlin were praising the efficiency of Johnson thermostats. The King of Spain became a Johnson customer, and a special installation was made in the Kremlin in Moscow. Almost 50 years later, H.L. Mencken, in his best hyperbolic style, lauded Johnson as "one of the great benefactors of humanity. I wouldn't swap him for a dozen Marconis, a regiment of Bells or a whole army corps of Edisons."

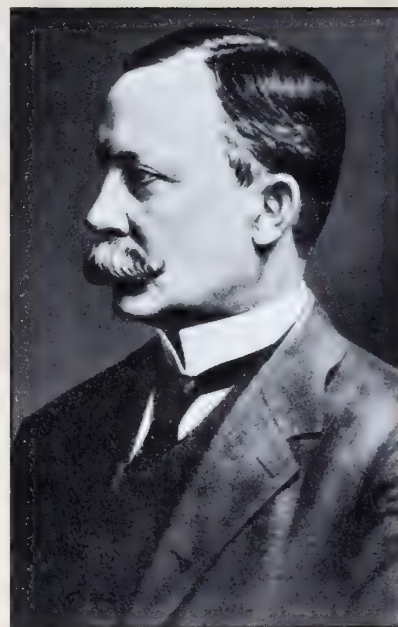
Johnson was an inveterate inventor. By using compressed air (pneumatics) Johnson made his thermostats more reliable. He then applied pneumatics to

clocks. A Johnson clock was the centerpiece for the 1904 World's Fair in St. Louis. Johnson churned out designs for puncture-proof tires, beer carbonators, push-button toilets and a wireless set.

The Johnson Wireless was one of three, including Marconi's, shown at the Paris World's Fair in 1900. At his death in 1911, Johnson held over 50 U.S. patents.

Johnson's interests took him into the infant auto industry. In 1901 he built his first truck—a 1-ton steam-powered flatbed—and then branched into delivery trucks, roadsters and touring cars. Gasoline-powered Johnson mail trucks motorized the U.S. Post Office in 1906. Between 1909 and 1912 automotive sales for Johnson Service averaged 15 a month.

After Johnson's death, his successor ordered an end to all Johnson businesses except temperature controls. An understandable decision: Johnson was even then in hot competition with a Minneapolis company that later became Honeywell, where a similar thermostatic device had been invented, also in 1885. But things have a way of coming full circle. At least one reason Fred Brengel—Warren Johnson's fourth successor as head of Johnson Controls—acquired battery maker Globe-Union is his belief in a future market for electric automobiles.—K.K.W.



Warren Johnson (right), and at the tiller of his first steam-driven truck
Greater than "a regiment of Bells or a whole army corps of Edisons."



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If you can't resist the juicy yields on hospital bonds, at least make sure you have their health examined first.

WANT TO BUY SICK BONDS?

By Ben Weberman



The biggest thing to hit the tax-exempt bond market since the housing bond craze is the financing—at tempting yields—of hospitals, clinics, health-care and continuing-care facilities. Tax-exempt bond funds and unit trusts, eager to boast of high rates of return in their advertising, are gobbling them in wholesale doses. Smaller investors, however, had better read the labels carefully.

Creditworthiness of borrowers in the health-care field varies greatly. Few small investors are qualified to judge their credit quality. Individuals, nevertheless, are buying large amounts anyway. The sales pitch is powerful—the rate of return, generally in the 13%-to-15% range on longer maturities, is at least as high as on U.S. Treasuries although the interest is free of federal and, in some cases, state taxes.

Underwriters have brought to market \$1.8 billion of these bonds so far this year. Only the massive \$2 billion raised by tax-free electric utilities exceeded hospital bonds in that period. All tax-exempt financing, including state and city, totals only \$12 billion to date.

The amount of health-care bonds going into the portfolios of tax-exempt bond funds and unit trusts should now be cause for concern. Analysts for these funds insist that

they can exercise good judgment and sort out the bad from the good. (They said the same thing when real estate investment trusts were fashionable.) They caution individual investors to avoid any bond not rated A or higher. But they allow themselves, as experts, occasionally to buy lower-grade bonds for their portfolios. You have to wonder whether the 15% returns on these high-risk situations aren't leading some of them to accept more risk than is truly prudent.

For all their tax-free status, hospital borrowings are sometimes used to finance facilities for privately owned "management" organizations. Some management groups are large, such as Hospital Corp. of America, with easily verified track records. Others are less than household names, which adds to the difficulty small investors run into in determining creditworthiness. The \$4.8 million Perry Memorial Hospital project in Perry, Tenn., for example, pays 16½% on bonds due 2012 and is managed by an M.D. and a hospital administrator who formed a company in February 1981.

Once in a while a rating agency will spotlight a particular issue when it changes a quality rating. In early April, for example, S&P's found the Philadelphia Psychiatric Center of the Philadelphia Hospitals Authority to be overstaffed and deteriorating financially and, accordingly, dropped its bond rating to BB from BBB-plus. A BB bond is "predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation." A BBB has "adequate capacity to pay interest and repay principal" but may be vulnerable to "adverse economic conditions or changing circumstances."

Another of the Philadelphia

Authority's units, the James C. Giuffre Medical Center, was dropped to a B quality in January because of "internal operating inefficiencies that generated near-term cash flow difficulties."

A notable case of actual default in 1976 involved an \$11 million Beaufort County, S.C. hospital bond issue. The money was borrowed in 1974 to build a hospital near the plush Hilton Head residential complexes. The 1975 recession so devastated the real estate market that estimated population increases never materialized. Interest payments that were missed from 1977 through 1979 have been resumed, but are still in the catch-up process. The latest payment covers a 1980 coupon.

Every bond-offering circular contains a listing of "bondholders' risks," which is must reading for any potential investor. The 1972 Social Security Act amendments revise reimbursement methods for Medicare and Medicaid, which will decrease the amounts of reimbursement. While there is still considerable doubt whether the Administration and Congress will be able to cut Medicare and Medicaid, it remains possible—with obvious implications for the financial health of a good many hospitals.

On the other hand, hospital bonds as a group offer greater yields to maturity than any other type now on the market. It's no surprise, then, that Fidelity High Yield Municipals has 28.8% of its \$220 million portfolio in hospital bonds, and yields 11.89%. T. Rowe Price Tax-Free Income Fund, with assets of \$335 million, is 29% hospital bonds, and yields 11.16%. The \$375 million IDS High Yield Tax Exempt Fund has 25% in hospital bonds and has a return of 11.15%.

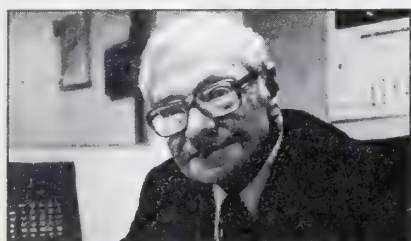
So, if you are tempted by hospital bonds' high tax-free yields, know what you are getting. Even the funds carry risk. Insist on examination of the latest quarterly report of the fund before you buy. Better still, get a hospital bond guaranteed by GNMA—there are such things, and they still yield about 11%. These include the New York State Dormitory Authority-Long Island Jewish-Hillside Medical Authority-GNMA collateralized 10½% of 2012 and the Dormitory Authority-New Rochelle Hospital 10s of 2011. ■

Ben Weberman is economics editor of FORBES magazine

The summer of 1982 looks more and more like the autumn of 1974.

THE VANISHING BULLS

By Heinz H. Biel



The stock market thrives on good news. It can manage to live with bad news, but it abhors uncertainty. We have had plenty of that in recent weeks, at home and abroad, causing stock prices to slump to new bear-market lows.

It is obvious that our economy is not in good shape. Unemployment is at its highest level in 40 years. Various industries are in a state of acute suffering. The fear-inspiring word *depression* crops up in forecasts of respected economists, and regardless of what sort of compromise Congress comes up with, the federal budget deficit will be of gigantic proportions. Investors find the storm cellar a timely refuge.

There is nothing unusual about our atmosphere of utter, impenetrable gloom. I have lived through it many times before. Just try to remember the fall of 1974. It was simply a dreadful time, and there appeared to be no way out of a seemingly hopeless mess. Seven months later the DJI was up 304 points, an astounding rise of 53%.

I wish the forecasting record of Budget Director David Stockman deserved a little more credibility. However, he does have access to information and statistical data that are not available to everyone, and, after last year's public "con-

fession," he is probably intellectually honest. Well, Stockman is outright bullish, expecting the economy to resume growing at a 4% or 5% annual rate, "or even better," in the second half. His optimism is getting support from some signs that we may have seen the worst. Sure, these signs are faint and may not be meaningful, but that is why economics is not, and can never be, an exact science.

It seems that the entire country, as well as all of Europe, is up in arms about the terrible damage done by present high interest rates. Even such weighty Republicans as Ed Meese and Nevada Senator Paul Laxalt are said to be toying with the idea of imposing credit controls or interest ceilings if the bankers don't lower interest rates. Any conservative economist cringes at the mere thought. However, let's look at the actual picture and see what those bad bankers have done to us in the past 12 months or so.

In June of last year the banks' prime lending rate was 20%. It is 16% today. Federal funds (the interbank lending rate) were also 20%. Today's rate is about 13½%. The yield on Treasury bills has come down sharply, from about 15½% to 12%, and the six-month-bill rate is also down more than 2 percentage points. The return on money funds, which by now have grown to over \$200 billion, has declined roughly 3%, from approximately 16% to 13%. Yet the money keeps pouring in.

It is evident that *short-term* interest rates are significantly lower than they were just a year ago. The Fed may have helped a bit, but the main reason is that investors refuse to go long term. That is why the yields on intermediate and long-term Treasury notes and

bonds are higher now than they were then. The same goes for corporate bonds. Tax-exempt municipal and revenue bonds are really in the doghouse. Their yields are up more than 2 percentage points since last June.

Whom do you want to blame for this? The "greedy banker" or the fearful investor who declines to be lured into buying longer-term fixed-income investments in spite of tempting yields? Just ask yourself: Would I give someone a 30-year mortgage, even at 17%? Of course you wouldn't, because you have no faith that the present high real return, which is due to "disinflation," will be anything more than a passing phase.

Our politicians, especially the ones who are running for election, are the worst offenders in undermining all efforts to keep inflation under control. Demands to force the Fed into pumping more money into the economy or subsidizing housing or installment credit just scare the living daylights out of investors. We need *credibility* much more urgently than temporary stimuli, if we want people to invest instead of keeping their money in cash equivalents. That's the only way to bring down interest rates.

It was obviously premature when, some months ago, I suggested that it might be time to start at least "nibbling" on common stocks. A great many stocks were quite cheap at their March lows. They are even cheaper now. This is disconcerting, to put it mildly, but it is all but inevitable in a bear market. That is the reason so many of us, most of us, I suppose, would rather buy in a rising market and pay a higher price than risk instant losses by buying too soon in a falling market.

Wall Street's pessimism is deep and has become contagious. There are not many bulls left, and even they talk only about a seasonal summer rally and are fearful of September, which is a notoriously bad month for stocks. Predictions that the Dow may go down to 700 or even 600 abound, as does the fear of a "real depression." Of course, it's *possible*, but is it *likely*? I doubt it. The only hopeful sign is the broadening bearishness. It reminds one of December 1974. ■

Heinz H. Biel is a vice president of the NYSE firm of Janney Montgomery Scott.

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A bear market is the time when you can play the low price/earnings ratio game with top-quality stocks.

THE ZANINESS OF CROWDS

By David Dreman



In his excellent new investment book, *Gaining on the Market*, Charles Rolo quotes a disheartened Isaac Newton, who had just dropped a bundle in the South Sea Bubble of 1720. Lamented Sir Isaac: "I can calculate the motions of heavenly bodies, but not the madness of people."

As far as mass psychology is concerned, little has changed.

In Newton's day the crowd was captivated by the mountains of gold supposedly owned by the South Sea Co., so much so that it bid the shares up to £500 million—5 times the cash in all of Europe—before that bubble burst. The fascination with the quick kill hasn't changed much over time. Only a year or two back the herd was swept away by the instant wealth to be had by buying rapidly growing companies dealing in "black gold."

With visions of a perpetual shortage, and oil at \$50, \$60 or maybe even \$80 a barrel, investors could not pick up companies that provided the industry's essential supplies or services fast enough. In the 1977-80 period, the index for oil-field-services and oilfield-equipment stocks went up 300%, almost 3 times the rise in the S&P's 500.

But as I have noted before, dazzling

prospects rarely pay off. When negative news hit, market perceptions changed quickly and drastically. In the stampede to sell that followed, caution and rationality were thrown to the winds, just as they had been previously in the scramble to buy.

But zaniness isn't all bad. It's precisely such events that present major opportunities to investors who can stand apart and keep their cool. In the current oil-service panic most issues are off 50% to 70% in the last 12 months alone, and P/Es are near or below historic lows.

The current pessimism is as overblown as the previous euphoria. The scenario of a disintegration of OPEC and gasoline back to 75 cents a gallon at the pumps now seems utterly farfetched.

Like it or not, OPEC is still very much alive. In recent months it has twice cut production to keep a prop under current prices, and Saudi muscle is effectively protecting the bargaining positions of weaker OPEC members by preventing some of the giants from cutting back on their purchases.

Then, too, Free World oil consumption, even using fairly conservative assumptions, is likely to rise moderately in this decade. Finally, there is an increasing desire by many countries to lessen dependence on OPEC by undertaking their own exploratory programs. The bottom line: Well-established oil-service and equipment companies should continue to show good growth over time.

Panics like this create interesting opportunities for people who play the low price/earnings ratio game. In a rising market, low P/Es are usually assigned to companies that are, for one reason or another, troubled or are at least slow growers. But in a selling panic like that which has

swept the oil-related stocks, you get a chance to buy Tiffany quality at discount-house prices.

Many first-rate companies with good balance sheets, excellent records and strong positions in sophisticated markets are trading at P/Es not much higher than those for highly leveraged Johnny-come-latelies that were able to skim top dollar at the height of the drilling frenzy.

Four companies I would look at:

Baker International (24) sells advanced services and equipment to the oil industry, as well as products for mining and other areas. Earnings grew at a 31% rate over the past five years. Oil glut or no, they should be up 15% to 20% this year. The stock trades at a P/E of 6.

Dresser Industries (18) provides major oilfield lines and services, mining and other equipment. Although earnings should still be up moderately this year, the stock has been cut almost two-thirds from its 1980 high. The stock trades at 5 times earnings and yields 4.4%.

Halliburton (29) has declined from a 1980 high of 90. The company provides a sophisticated line of oil-field products and services, which accounted for 85% of last year's profits. The stock has a P/E of 5 and yields 5.6%.

Hughes Tool (19) is the world's largest manufacturer of drilling bits. Earnings should decline moderately this year as drillers dip into inventories hoarded previously. However, the combination of increased worldwide drilling, together with a larger percentage directed to deep drilling (requiring more bits), should result in good growth in the years ahead. Down 60% from its high, Hughes is back to its 1975 price level, although earnings have more than quadrupled since then. The stock trades at a P/E of 4 and yields 4%.

As Sir Isaac noted, there's no accounting for the madness of people. Investors who pursued Baker International when it was 25 times earnings are afraid to touch it at 6 times earnings. So I won't promise you that some of these stocks won't go lower yet. But when sanity prevails again, as it will, today's prices for these stocks are going to look cheap. ■

John Train's regular readers will find his article on page 44.

David Dreman is managing director of Dreman, Gray & King, Investment Counsel, New York, and author of *Contrarian Investment Strategy*.

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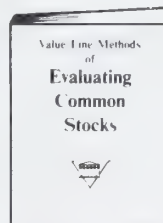
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The public isn't paying much attention to the Consumer Price Index. It's watching interest rates and supermarket prices.

A MESSAGE TO PRESIDENT REAGAN

By **Srully Blotnick**



President Reagan is annoyed and tends to blame the news media. Economists and financial experts are puzzled. The U.S. inflation rate has been reduced by nearly 70% since the Reagan Administration took office. So why aren't consumers and investors greeting the good news with huzzahs and spending us back to prosperity?

The answer is actually quite simple. Once lodged in the public mind, a major idea is not easily dislodged. It took years before American investors and American consumers began taking inflation seriously. By the same token, a few months of reported declines in the Consumer Price Index are very far from persuading them that inflation is waning.

America is a land of superlatives; a land where performers must be labeled "superstars" before anyone will pay them attention, and where large-size packages become "super-economy" size. The same with inflation. When it was running at low levels, it received little attention.

In the eight years from 1958 to 1965 there was little to notice. The rate of inflation, as measured by the CPI, varied between 0.7% in 1961 and 1.9% in 1965, and the average for the eight-year period was 1.4%.

Dr. Srully Blotnick is a research psychologist and author of Getting Rich Your Own Way and Winning: The Psychology of Successful Investing.

Thereafter, the pot started to boil. President Johnson tried to finance both Great Society programs and the Vietnam War without the imposition of a war tax, and the resultant bulging deficits nearly doubled the inflation rate in 1966 and doubled it again by 1969, to 6.1%. Nevertheless, it wasn't until the fall of 1973 that the majority of investors in my sample finally began to describe inflation as "a problem of paramount importance."

What had taken them so long? Why were they only then starting to see the matter as a major problem? Because this financial phenomenon had done the equivalent of the first four-minute mile: It had gone *double-digit*. In their eyes, the event at last had real significance, an undeniable reality. In 1973 the CPI was 8.8% and heading higher, to 12.2% in 1974. Regardless of what economic history texts tell you about the past 20 years, it wasn't until the inflation rate exceeded 10% that the concept took firm hold in the minds of the public. That's when housing prices—the average man's inflation hedge—started to soar.

When, much to President Ford's delight, the inflation rate sank to 4.8% in 1976, the public remained skeptical. Would they have been so cynical about progress on this front if the CPI had stayed at an annualized rate of less than 9% throughout the months of 1973 and 1974? The answer almost certainly is no, since they would not have had a chance to hear newscasters tell them repeatedly that "inflation is still running at a double-digit pace." All that reality, it was difficult to ignore. The concept had finally attained momentum. And sure enough, they were right to be so skeptical: By 1980 the CPI had again soared, this

time to 15.5%, and three-month T bills went even higher.

Why should the public believe that this round will stand in stark contrast to the previous one? They clearly don't. In fact, middle- and high-income investors are using entirely different approaches to assess the prospect for inflation, with \$46,000 in annual cash compensation acting as the approximate Mason-Dixon line. Those whose earnings are below that level view their everyday consumption expenditures as the key indicator. If cars, gasoline and, especially, food prices remain high, they are resolute in their view that inflation rates have not fallen. Upper-income respondents, on the other hand, are using interest rates as their chief indicator that the inflation-rate decrease is only temporary.

"Right after election day" is the most common reply when you ask them when they think inflation will speed up again. "The Republicans want to be sure their candidates are reelected, and this is the best way." In their view, the decrease has been engineered and is part of a well-planned political campaign.

"You know why interest rates are so sticky [on the high side]?" the president of a small computer company asked me rhetorically. "Because they are the truth. They're the only honest public-opinion poll among people in the know. The other [inflation rate] is rigged. I don't go by that. Nobody should."

In short, what lower- and middle-income segments of the public see at the supermarket and what upper-income earners see in high interest rates convinces them that inflation is still rampant.

How will investors react when they see interest rates starting to come down? Most will not rush into bonds. Bonds have been a lousy buy for three decades and are still viewed unfavorably. Instead they say they will buy utility stocks—a kind of hybrid stock-bond.

What would change the public's perception of inflation? An event of the same magnitude that planted it so firmly in their minds to begin with. For instance, a negative CPI for an entire year, as occurred in 1949 and 1954. "Below zero" may be needed to offset the psychological power of "double-digit." ■



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CORPORATE REPORT

Updates

A SPECIAL FORBES ADVERTISING SERVICE FOR INVESTORS AND THE FINANCIAL COMMUNITY

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ARIZONA SILVER CORPORATION

(financial year end December 31, 1981)

CONTINENTAL SILVER CORP.

(financial year end March 31, 1982)

DIRECTORS' REPORT TO SHAREHOLDERS

Vancouver, B.C., Canada, June 4, 1982—Despite the declining economy which has had an adverse impact on resource oriented companies, Arizona/Continental were each able to emerge at their respective financial year ends with significant progress being made in both their mining and gas/oil operations and each views the next financial year with a confident outlook.

After several years of exploration and development both "Arizona's" and "Continental's" White Hills Silver Mining Properties are now in production and the Tennessee gas/oil operations are now creating a cash flow. During the year exploration funds were directed towards several gas/oil prospects in Texas, U.S.A. all of which will be further commented upon in this Report.

WHITE HILLS MINING PROPERTIES

(Arizona Silver Corporation)

During the past several years "Arizona" has been conducting an active rehabilitation and development program on its White Hills Mining Properties, comprising a total of 85 patented and unpatented mineral claims located in the Indian Secret Mining District, Mohave County, Arizona. Mining development has been concentrated towards two major areas—one being the establishment of a permanent leaching operation on the Company's property for the processing of ore and the second being the rehabilitation and development of the Grand Army of the Republic (G.A.R.) Mine.

The Leaching Plant established on the property which is capable of processing 300-350 tons of ore per day is currently operating at a rate of approximately 100 tons per day. Extensive modifications have recently been made to the plant resulting in improved automation and substantial up-grading of the operation.

Development of the G.A.R. Mine has included total rehabilitation of the vertical shaft to the 370' level and timbering/cleaning-out of the development drift to the west for approximately 400 feet. Subsequent to this development work being completed approximately 3000' of long hole drilling was conducted which proved to be a very economical method of locating and determining the values of vein structures.

A Raise of approximately 80' has been completed in the area of the north vein and a slusher station built. Drifting to the west is currently progressing in anticipation of initiating production from this area of the G.A.R. Mine in the near future.

WHITE HILLS MINING PROPERTIES

(Continental Silver Corp.)

After several years of exploration and development, the "Hulda Mine"—one of several old mines located on Continental's 23 mineral claims in Mohave County—northwestern Arizona is now in production. During the past several weeks production of ore averaging approximately 12 ozs. silver per ton with some gold values has been favourably maintained at a rate of approximately 50 tons per day. Recent development work which has included long hole drilling—surface trenching and underground drifting/stopping should result in the Hulda Mine remaining in continuous production. Subject to reasonable metal prices, it is management's intention to initiate some sale of product in order to receive a cash flow from mining operations. During the balance of 1982 further development of the "Hulda Mine" is scheduled and in addition, other potential mines located on Continental's claim block will be investigated for possible development.

GAS AND OIL OPERATIONS—TENNESSEE

During the past several years "Arizona" and "Continental" have assembled and are currently developing approximately 100,000 acres of oil/gas leases located on the fringe of the eastern Overthrust Belt in Tennessee, U.S.A. Approximately 100 wells have been drilled on this acreage in which "Arizona" holds a working interest ranging between 25-

50% and "Continental" holds a working interest ranging between 50-100% subject to over-riding royalties of between 12.50-18.75%. Attention is currently being focused towards obtaining optimum production from those wells already drilled and connected to pipeline facilities. Experimentation of various completion techniques together with compression testing has been conducted in order to stabilize present fluctuation of gas production and to ascertain a more accurate projection of the life expectancy of each producing well. Once all this is achieved Arizona/Continental will be in a better position to negotiate more favourable terms concerning disposition of gas production thereby increasing their cash flow. Approximately \$3.03 per thousand cubic feet is currently being received for the gas.

GAS AND OIL OPERATIONS—TEXAS

Pursuant to a Development Program Agreement dated September 17, 1981 wherein Slope Energy Inc. is the Operator, Arizona/Continental participated in the drilling of 26 shallow wells on the T. Connelly Lease #1 and 1 deeper well on each on the Williams-Crosby and L.E. Wright Leases.

After receiving very encouraging drilling reports from the Operator, Slope Energy Inc., several delays have been encountered with completion/production. In the circumstances, prudence dictated that any further drilling be suspended until the completion/production can be resolved. The services of independent consultants have been engaged to assess the situation and provide their recommendations and conclusions. Once all such recommendations and conclusions have been provided decisions will be made as to the best way to proceed with the wells drilled and steps will be taken to implement such decisions. In the meantime, Arizona/Continental are optimistic that gas/oil in commercial quantities will be produced in connection with the operations in Texas. For this reason and to gain closer and firmer control over these operations the setting up of an office in San Angelo has been completed and the new Texas Corporation, "Arizona Resources Texas Inc." has been formed. In addition to being in a position to deal more effectively with the foregoing, new prospects are also being examined and evaluated wherein Arizona Resources Texas Inc. will act as Operator thereby, among other things, keeping within the Companies the customary carried working interest granted to an outside Operator.

Due to the present state of the economy, there are presently several good prospects available on more favourable terms than usual. For this reason Arizona/Continental may in the near future each contemplate a Private Placement Financing, the terms of which would be subject to approval by the regulatory authorities. The funds raised by such a Private Placement would be primarily earmarked towards the gas/oil operations in Texas.

IN CONCLUSION

Arizona/Continental each thank their respective shareholders and all others concerned for the support given during the financial year completed by each Company. Arizona/Continental have entered each of their new financial years with policies designed with the objective of increasing cash flow from each of their mining and gas/oil operations. To this end and with the commitment to achieve greater success in each of their current financial years, Arizona/Continental each appreciate and look forward to the continued support of all concerned.

CAPITALIZATION

Arizona Silver Corporation	Continental Silver Corp.
Authorized 10,000,000 Shares	Authorized 5,000,000 Shares
Issued 3,107,934	Issued 2,545,119 Shares
Listed	Listed
Vancouver Stock Exchange/Arz	Vancouver Stock Exchange/CVR
NASDAQ/ARZ NF	NASDAQ/CTL SF

(Contact: Charles S. Underhill, Director, Arizona Silver Corporation & Continental Silver Corp., Suite 1140, 625 Howe St., Vancouver, B.C. Canada V6C 2T6 Phone: (604) 689-5588, or Michael A. Connor, Schaenen & Fellerman & Co. 16th Floor, 52 Vanderbilt Ave., New York, N.Y. 10017 Phone: (212) 490-1122.)

DAMCO ENERGY CORPORATION

Midland, Texas, May 11—DAMCO Energy Corporation today reported that its #1 McIntyre State was drilled to total depth of 18,564 feet and was completed in the Devonian formation from 18,104 to 18,378 feet. On 4-point test, the calculated absolute open flow potential was 31.9 million cubic feet of gas per day. The well is shut in with the Company negotiating a gas sales contract.

David A. Metts, president, stated that the well was spudded in October 1981 on the Company's Rojo Caball prospect in Pecos County, Texas and encountered apparent productive zones in the Delaware Mountain at 5,300 feet, the Wolfcamp at 12,000 and the Atoka at 15,000, in addition to the Devonian formation. He said that after encountering the productive Delaware Mountain in the #1 McIntyre, the Company spudded the #2 McIntyre 430 feet to the west in March 1982. This well was drilled to 7,000 feet and completed in the Delaware Mountain between 5,300 and 5,322 feet. On a 24-hour test the well flowed 2 barrels of oil, 60,000 cubic feet of gas and no water through a 12/64-inch choke with flowing tubing pressure of 6 pounds per square inch.

Metts reported that the Company's Rojo Caballos prospect comprises 2,710 gross (2,390 net) acres and that, following planned seismic work, the Company expects additional drilling to the Delaware Mountain, the Wolfcamp, and possibly the Devonian. He said that DAMCO owns a 20 percent working interest in the prospect with other significant owners being J. R. Latimer, Jr. and Associates of Dallas (21.875 percent); Latham Exploration Company, Shreveport, Louisiana through its LEXCO 81-1 Drilling Program (12.5 percent); ENI Exploration Company of Houston through its ENI Joint Venture 1981 XI (12.5 percent) and Evmar Oil Corporation of New York (9.375 percent).

(Contact: David A. Metts, president of DAMCO at Gibraltar Savings Center, (Suite 360) Midland, Texas 79701 Phone: (915) 682-2984.)

FIDELITY OF OKLAHOMA INC.

FIDOK INCREASES CASH DIVIDEND DECLARES 100% STOCK DIVIDEND

OKLAHOMA CITY—The Board Directors of Fidelity Oklahoma, Inc. (NASDAQ: FIDOK) on May 13 declared second quarter cash dividend of 40¢ per share, up 8¢ from 37¢ the previous quarter. The Board also declared 100% stock dividend. Both are payable June 24, 1982, stockholders of record June 10, 1982.

The new rate (40¢ per share quarterly, or \$1.60 annualized) compares with \$1.48. Based on additional shares outstanding, the rate will be 20¢ per share (80¢ annual). Cash dividends have more than tripled since 19 Fidelity has paid cash dividends in 72 of its 74 years including 48 consecutive years since 1934.

(Contact: Wilfred A. Clarke, President and Chief Executive Officer, Fidelity of Oklahoma, Inc., P.O. Box 24128, Oklahoma City, OK 73124. Phone (405) 272-2000.)

MCR AE CONSOLIDATED OIL & GAS INC.

The following is the first quarter report given to shareholders by David L. Kelley, President & Chief Executive Officer:

"I am pleased to report on the results of operations for the first quarter of the company's new calendar fiscal year. Revenues increased 3.8% to a total of \$40,992,000 the quarter. Although revenues were up only modestly, gross income from operations increased 28.9% to a total of \$11,766,000, reflecting improved margins in the company's business. Net income increased 44% over the 1982 quarter to a total of \$3,827,000, representing \$0.24 per share compared to \$0.17 per share for the same period last year. "While the company continues to be affected by the weak economy in the form of both reduced gas deliveries through our pipeline system and lower than normal producing rates from our oil and gas wells, we have been able to improve profits. A significant new gas pipeline sales contract went into effect

CORPORATE REPORT UPDATES

Continued

January 1, 1982. The full effect of this new contract is yet to be seen because of the lower volume of gas sales induced by the general business recession. The company continues to follow a practice of conservative use of debt and attempts to keep capital additions approximately equal to working capital provided from operations. In these days of continued high interest rates, this practice seems all the more prudent.

"The company is approaching 1982 with cautious optimism, a strong financial position and improved operating margins. Our prospects for continuous growth, despite the unpredictable economic climate, are excellent."

(In Thousands Except Per Share data)

	Unaudited	
	3 Mos. Ended Mar. 31	
	1982	1981
Total revenues	\$40,992	\$39,478
Net income from operations	6,379	4,070
Net income	3,827	2,656
Earnings per share	\$.24	\$.17
Average shares outstanding	15,632,495	15,632,495

(Contact: Bromley DeMeritt, Jr., Vice President-Investor Relations, McRae Consolidated Oil & Gas Inc., 800 Dresser Tower, Houston, TX 77002. Phone: (713) 652-5858.)

GEARHART INDUSTRIES, INC.

N

FORT WORTH, TX, June 3, 1982—Gearhart Industries, Inc. which is engaged in well evaluation services for the oil and gas industries reports revenue and earnings for the quarter ended April 30, 1982.

The results of operations for the quarter ended April 30, 1982 and the corresponding quarter in the prior year are as follows:

	Quarter Ended April 30	
	1982(a)	1981
Net revenue	\$93,114,000	\$78,942,000
Net income	6,103,000	8,103,000
Average common and common equivalent shares outstanding	15,438,000	15,413,000
Earnings per share	\$.40	\$.53

(a) Reflects the adoption of the new accounting change for foreign currency translation (FAS No. 52)

The results for the first quarter included a substantial increase in net income from foreign operations offset by a substantial decline in domestic drilling and workover activities. As compared to the prior year, net revenue increased 18 per cent and net income decreased 25 per cent.

(Contact: Wayne Banks, Sr., Vice President, Finance, Gearhart Industries, Inc., P.O. Box 1936, Fort Worth, TX 76101. Phone: (817) 293-1300.)

MSR EXPLORATION LTD.

O-T-V

CUT BANK, MONT., May 10—MSR Exploration Ltd. of Cut Bank, Mont. today said a well in the Tee Nos Pos Field in northeast Arizona in which it owns a 100 percent working interest is a new oil pay discovery for the field.

The well, Navajo "O" No. 12 in Apache County, drilled by MSR's wholly owned U.S. subsidiary Mountain States Resources, Inc., flowed at a rate of 290 barrels of oil per day through a 1½-inch choke on preliminary 25-hour cumulative production tests of the Desert Creek formation through perforations between 5,108 and 5,118 feet.

The zone, not previously produced in the field, was treated with 3,000 gallons of acid. After spent acid and load gas recovered, there was no indication of formation water.

The company said three additional zones above the Desert Creek also appear productive, in the upper Ismay and lower Ismay, main producing zone in the field. Preparations are under way to production test those zones.

Three offset locations are being staked for immediate drilling on the 1,280-acre Navajo Tribal Lease. The new producing lease, which MSR earned by drilling, could add up to 1,000 barrels per day of new production to the company, MSR said.

The well is MSR's first venture in Arizona. The company, an Alberta corporation operating totally in the U.S., has producing and undeveloped oil and gas properties in Montana and Utah.

MSR Exploration Ltd. is a junior Alberta resource company with a creditable track record, good cash flow, cash in the bank and no short or long term debt. Company shares are listed on the Toronto (MTN-T) and Vancouver (MTN-V) stock Exchanges in Canada and on NASDAQ (MSREF) in New York.

(Contact: J.V. Montalban, president, of MSR Exploration P.O. Box 176, Cut Bank, Montana 59427. phone (406) 73-2235, or Richad L. Zirbel at (303) 832-2717 for MSR.)

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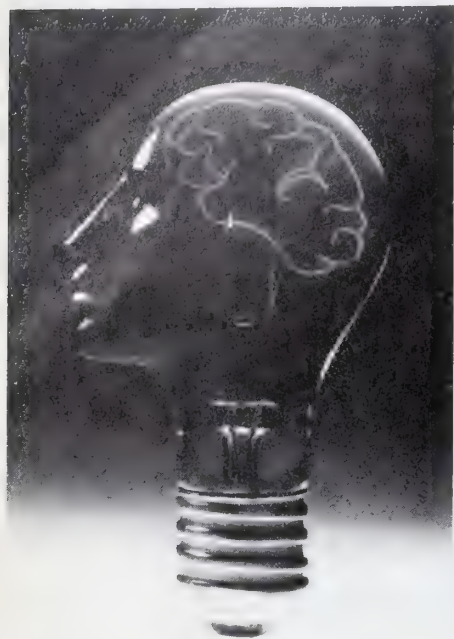
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Observations

Publicity to the contrary, American farmers are generally in good condition.

REPORT FROM THE CORN BELT

By Ashby Bladen



Institutional investment officers like myself usually deal with the productive economy at a high level of abstraction. As a consequence, I find it refreshing to go out and see the people and things that actually produce the values that we are attempting to capitalize on. In May I made such a trip to look at some of my company's investments in the Corn Belt.

To prepare for the trip, I practiced crumbling a lump of topsoil in my hand while looking thoughtful. That is how a Connecticut Yankee pretends to be an expert on mid-western farms. Seriously, although the Phoenix Mutual Life Insurance Co. has had a consistently successful farm mortgage investment policy for half a century (it made a lot of money by buying and improving farms during the farm price inflation of the last decade), this was my first exposure to the field. So I am not going to pretend to be an agricultural expert. However, there are a few conclusions that seem clear even to a neophyte like myself.

First, by comparison with the average industrial or commercial businessman, the *average* farmer is in extremely good financial condition. Farmers' total debt is a trifle over

one-fifth of their equity in their farms. Unfortunately, however, prices are made at the margin, and the recent farm buyers who have incurred peak interest rates in order to pay peak prices for land are in big trouble. Also, the cash income that can be earned by owning a farm has been running at about 6% of its market value. That is far too little to justify the investment at a time when cash yields 13% or more. Thus the anticipated return from owning a farm has come to depend more on price appreciation than on earnings, and that is always a dangerous situation. Moreover, the rising trend of earnings that would support future appreciation appears to be over for a while. Farm income is now going down, not up.

The newspaper headlines reporting that real farm income has fallen back to the level of the Depression years are correct, but they are also highly misleading. Today there are only one-third as many farmers as there were 50 years ago. Consequently, their real standard of living is three times as high as it was during the Depression. The difference is mainly the result of improved technology and of a very large capital investment per farmer. Our agricultural system has become so efficient that a relatively small number of farmers can feed the American people with about three-fifths of their output, leaving the rest available for export. But the outlook for increasing agricultural exports is not good.

The world's need for American foodstuffs is large and growing. One reason is that Russia and the Communist states in Eastern Europe, which before World War I were the breadbasket of the Continent, have so badly damaged their own farm economies that they can no longer

Ashby Bladen is senior vice president for investments of the Phoenix Mutual Life Insurance Co. and author of How to Cope with the Developing Financial Crisis.

MONEY & INVESTMENTS

feed themselves, even though they have a much larger part of their populations engaged in agriculture than we do. It is possible to run a factory, after a fashion, on communist principles, but there is no way to make a communist farm system work efficiently.

But do not make the mistake of confusing need with effective demand. The difference is finance. Prosperity down on the farm now depends mainly on the ability of foreign customers to borrow the money to pay for American exports of food. And there are two basic reasons for believing that the finance will be less forthcoming in the future than it has been in the past. The first reason is that the current Administration in Washington is less interested in foreign aid and loans than any administration we have had since World War II. The second reason is that the Polish and Argentinian crises are forcing both politicians and bankers to recognize that the prospects for repayment of many of the international loans that were made during the last decade are poor. The Communist bloc in particular is likely to be in a financial bind for the foreseeable future.

On the other hand, for people who like to buy their straw hats in September, a buying opportunity in farms is probably developing. We prefer to create investment value whenever possible, rather than passively buying something and relying on external events to raise its market value, so I am particularly impressed by our farm investment officers' style.

A farm is usually a big investment for an individual farmer, and often leaves him without the additional cash or credit to make improvements. So Phoenix Mutual buys farms that need improvement, where we feel an investment in improvements will yield us a profit. Usually, these are relatively hilly farms in the Corn Belt that suffer from erosion and gulleys on the slopes and unproductive wet spots at the low points. Installing proper drainage both improves the farm's crop yield and makes it easier to use the enormous machinery that is responsible for the Corn Belt's productivity. I expect that our investment in farms will increase significantly during the next few years. ■

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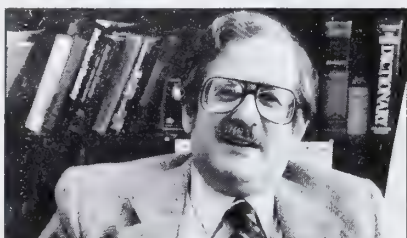
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Readers of this column might agree with the aphorism that even a blind squirrel will find an acorn every now and then.

A LOOK BACK WITH MODESTY

By Stanley W. Angrist



At the beginning of each six-month evaluation period I resolve to provide my readers with a set of trades that produce nothing but profits; at the end of each period I look back with thanks that we wound up again with at least a little more in our pocketbooks than we began with. Each evaluation brings home to me how difficult it is to earn a profit while maintaining one's mental health. If you are new to trading, and find that after six months you can't do both, then the prudent thing to do is quit the market or let someone else trade for you.

I started this period (the Jan. 18 issue) with a discussion of a technique that suggests that one could buy low and hold for a profit. I suggested a couple of trades that one might look at but I made no specific recommendations. Therefore, I am not including in my evaluation these suggestions, which at various times showed both modest profits and losses.

On Feb. 1, I suggested an outright long position in the July lumber contract under \$175, or a spread of long July/short March, with a premium of no more than \$15 July. Once again I thought interest rates would be coming down sooner rather than later. Traders taking the out-

right long position were stopped out rather quickly with a \$780 loss. The pity is that it was never possible to enter the spread at the recommended level.

The grain fundamentals told a tale that was very clear to me in the Feb. 15 issue: Beans were overpriced, while corn was underpriced. I recommended buying three contracts of corn for each contract of beans sold. I assumed that the trade was done at \$2.17 premium the corn. My script says the spread should have widened by at least \$1. Unfortunately, neither commodity had read the script. Wise traders were stopped out by early May with a \$1,000 loss.

Still optimistic, I turned my full powers to the cattle market on Mar. 1. By the time the issue reached subscribers, it was impossible to buy June while selling October with June only 250 points over October. The great cattle runup had started. It was possible, alas, to take the second trade in the article of long October/short June, with June 450 points over. This trade was mercifully short, with prudent speculators being stopped out almost instantly with a \$400 loss.

By Mar. 29, July sugar looked cheap to me at under 13 cents per pound. It got a lot cheaper very quickly. Stop-loss orders took traders out with an \$800 loss. A second recommendation in the same issue suggested a bull spread of long July/short October, which could have been easily done with the October contract at a 50-point premium. This spread has narrowed about 10 points for a \$100 profit. Even a blind squirrel will find an acorn every now and then.

Undaunted by failure, but encouraged by the impressive profit in the sugar spread, I turned to interest

rate futures in the Apr. 26 issue. I believed that short-term rates would fall faster than long-term rates. I suggested that one buy the September CD contract while selling the September T-bond contract, with CDs commanding a 1.4% interest rate premium to the bonds. By early June both sides of the trade were showing a profit of \$3,475 with most of it being earned on the short position in the bonds.

My long-term bearish views on the precious metals caused me to examine the merits of a bear spread in gold in the May 10 issue. I proposed buying August while selling April, with the April contract carrying a \$33 premium. The spread has worked beautifully as the difference is now down to \$29 for a \$400 profit per spread. Delusions of infallibility crept in as I now have had two consecutive winners.

The heating-oil contracts attracted my attention in the May 24 number. I believed that nearby contracts would gain on more distant options. So far I have been correct. August has gained on October, while November has crept up on December. In each case the profit amounts to about \$160. Since these are essentially the same trade, I will claim only one correct here.

In the June 7 column I asserted that the premium that August bellies carried over February bellies was unsustainable. I recommended buying February while selling August, with the latter at a 1,100-point premium. Unfortunately, by the time readers received the magazine, the spread had narrowed by 300 points or so. It was the right idea with a slight error in timing. I can't take any credit for this one.

So how does this six-month period stack up? There were a total of ten trades recommended, but only eight of them could actually have been taken. Of those eight, the two outright long positions generated losses of \$1,580, while two of the six spreads produced losses of \$1,400. The other four spreads kicked in profits of \$4,135. The net profit generated on the 50% of the possible trades that were correct was a not-too-impressive \$1,155. None of these calculations include commissions, but even if they were included, the net result is still a profit. ■

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets



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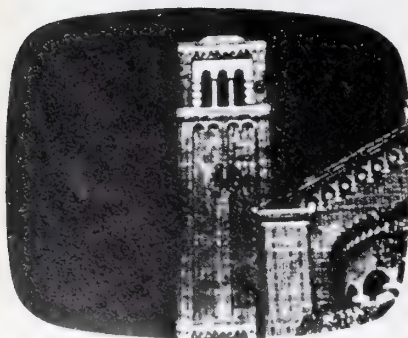
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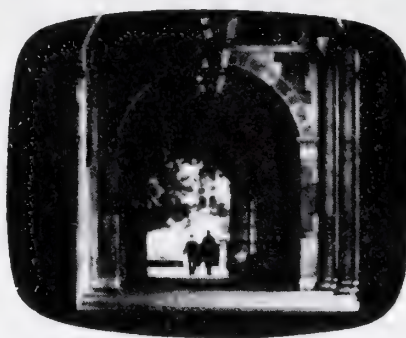
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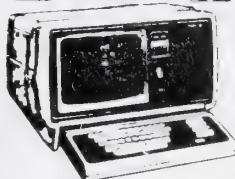
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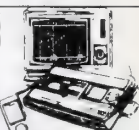
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★ 336,000 are in top management positions

★ 236,000 serve on boards of one or more companies

★ Average household income: \$93,000

★ 685,000 own securities. Average value: \$473,000

★ Average net worth: \$724,000

SHARING IS CARING



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Flashbacks

Edited by Dero A. Saunders

"The more things change. . ."
Items from past issues of FORBES

Sixty years ago in FORBES

(From the issue of July 8, 1922)

"The men of the steel trade—leaders, lieutenants, rank and file and all—were surprised at the way their business picked up four months ago. . . . This is not the first time steel men have been taken unawares. The ups and downs of the past 40 years have shown so many sudden reversals of form that one of the most dependable formulas in iron and steel is that it is the unexpected that happens. Yet every time of prosperity regularly produces a crop of prophets regularly confident that pig iron and steel will never again sell as low as in the years before that particular boom. Likewise, when they are groveling in the depths of depression, no other industry can show so many men who see no chance for prices ever to rise to the mad heights reached in the last previous ascent. . . ."

—A.I. Findley, Editor, *Iron Age*

One reason for the misperceptions of the steel men, Editor Findley went on, was that they failed to recognize how fluid a thing the steel industry is. Back in the 1880s, he noted, three-quarters of the steel made in America went into rails. By 1920 the total railroad consumption of steel was probably under 10% of U.S. output, he estimated—considerably below the tonnage going into wire products such as nails and fencing.

"As in all depressions during the past 20 years, the automobile has been the first big industry to come back, and in so doing, it has set the life blood flowing in a score of other industries. The banks didn't do so much for the automobile; but the automobile has done much for the banks. The truth is that the bankers as well as many other folks have yet to reach a true understanding of the automobile. They do not realize what it means in the life of the average man and woman—that they would cut down even on food, clothes and shelter before dispensing with the motor car."—Alvin Macaulay, President, Packard Motor Car Co.

"Costs in the building industry now average approximately 25% below the peak period of 1920, it is revealed in a study of prices and wages in the industry by the Department of Labor. War-time rent levels, it is pointed out,

are tending to reduction as a result of the increased building overcoming the shortage of living quarters throughout the country. In some sections, particularly in New England, reports show that there is no shortage whatever of shelter."

Fifty years ago

(July 1, 1932)



The most daunting thing for the businessman in mid-1932 was the uncertainty.

"Rarely if ever before have presidential conventions or presidential campaigns diverted men's minds so little from their daily affairs. Day-to-day bread-and-butter problems almost entirely monopolize the attention of men of affairs. Congress, on the other hand, has been watched intently. Although it raved and stormed and threatened recklessly, it finally acted more rationally than had been feared. The prevailing feeling in financial and business circles is that what may be said or unsaid on the hustings is much less likely to expedite or retard recovery than are economic events at home and abroad. The expectation is that a definite trend will have developed before November 8."

"The accepted notion that directors have no concern with the market price of their stock is as fallacious as it is hypocritical. Needless to say, managements are not responsible for market fluctuations, but they should take cognizance of excessively high or unduly low price levels for the shares. They have a duty to protect their stockholders against avoidable depreciation in market value—as far as is reasonably in their power—equal to the duty to protect them against avoidable losses of earnings or assets. . . ."

"The fact that a company's shares sell persistently below their liquidating value should fairly raise the question whether liquidation is advisable. Please note we do not suggest that the low price proves the desirability of liquidation. It merely justifies any stockholder in raising the issue, and entitles his views to respectful attention."

—Benjamin Graham

In this third of three articles—the first series the father of security analysis did for FORBES—Ben Graham explored the way in which shareholders' interests sometimes diverged from those of company directors and managers. That he persuaded any managements to support liquidation is doubtful. But he may have influenced investors like Floyd Odlum, who grew rich in the 1930s buying up investment companies whose assets were worth more than their parent company shares.

Twenty-five years ago

(July 1, 1957)

"Last month the 17th annual edition of *Investment Companies*, the revered bible of the funds business, rolled off the press and into the waiting hands of serious students of the investment industry. Priced at \$20 and limited to 7,000 copies, the standard guide to 231 mutual funds (and 52 closed-end companies) is the brainchild of New York broker Arthur Wiesenberger. . . .

"'Mutual funds,' declared Wiesenberger in the preface to the manual, 'have grown at a rate exceeding 20% a year. Within the next decade, continuation of this trend would result in a business of \$40 billion to \$50 billion, with more than 5 million shareholders. We believe not only that these figures are well within the realm of possibility but that they may err on the conservative side.'"

Wiesenberger was a good prophet. Assets of open-end mutuals reached a peak of nearly \$60 billion in 1972 before sliding off with the stock market to \$36 billion in 1974. But they later recovered smartly to over \$58 billion by the end of 1980—not counting the enormous flow (now some \$200 billion) into that recent phenomenon, the money market funds.

"Young bankers' salaries are finally catching up with those of other businessmen. Long known for their low wages, the banks now start college graduates at \$382 a month, just about equal with industry's average."

You can dream, create,
design and build the most
wonderful place in the
world, but it requires
people to make the
dream a reality.
WALT DISNEY

Live together like brothers,
do business like strangers.
ARAB PROVERB

Money, make money; by
honest means if you can;
if not, by any means
make money.
HORACE

A business with an income at
its heels furnishes always
oil for its own wheels.
WILLIAM COWPER

Money is as money does.
If it doesn't, it isn't.
EDWARD SMITH

When once a decision is
reached and execution is
the order of the day,
dismiss absolutely all
responsibility and care
about the outcome.
WILLIAM JAMES

Capable assistants keep us
in balance, and from under-
judging or overestimating
the importance of many things.
WILLIAM FEATHER

The best executive is the
one who has sense enough to
pick good men to do what he
wants done, and self-restraint
enough to keep from meddling
with them while they do it.
THEODORE ROOSEVELT

An ounce of performance
is worth more than a
pound of preaching.
ELBERT HUBBARD

Thoughts on the Business of Life

*It usually takes a big man to
delegate responsibilities
to others—and then leave
these others to handle them.
He will install a man, give
him a free hand and watch
results. He does not actively
supervise his men, but he
does—actively and minutely—
supervise the results. The
man afraid to deputize will
retard growth—his own and
that of his organization.*
B.C. FORBES

The great need for anyone
in authority is courage.
ALISTAIR COOKE

Management is getting the
right people, to perform
the right job, at the right
time, in the right place for
the right amount of profit.
J. TERRY BECHTOL

A leader is best when he is
neither seen nor heard, not so
good when he is adored and
glorified, worst when he is
hated and despised. But of
a good leader, when his work
is done, his aim fulfilled,
the people will say, "We
did this ourselves."
LAO-TZU

A great man shows his greatness
by the way he treats little men.
THOMAS CARLYLE

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The executive's chief
business is to organize,
deputize and supervise.
GEORGE RIPLEY

It is frequently a
misfortune to have
very brilliant men
in charge of affairs;
they expect too much
of ordinary men.
THUCYDIDES

Give your decisions, never
your reasons; your decisions
may be right, your reasons
are sure to be wrong.
WILLIAM MANSFIELD

Confidence without arrogance
marks the successful executive.
ARNOLD GLASOW

Many a man spans his children
for things his own father
should have spanked out of him.
DON MARQUIS

A Text . . .

Chasten thy son while
there is hope, and let
not thy soul spare
for his crying.
PROVERBS 19:18

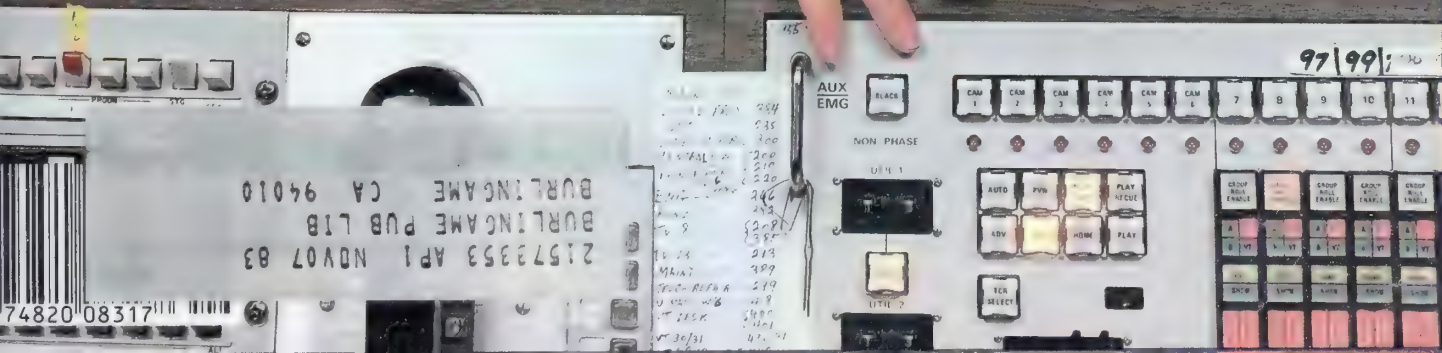
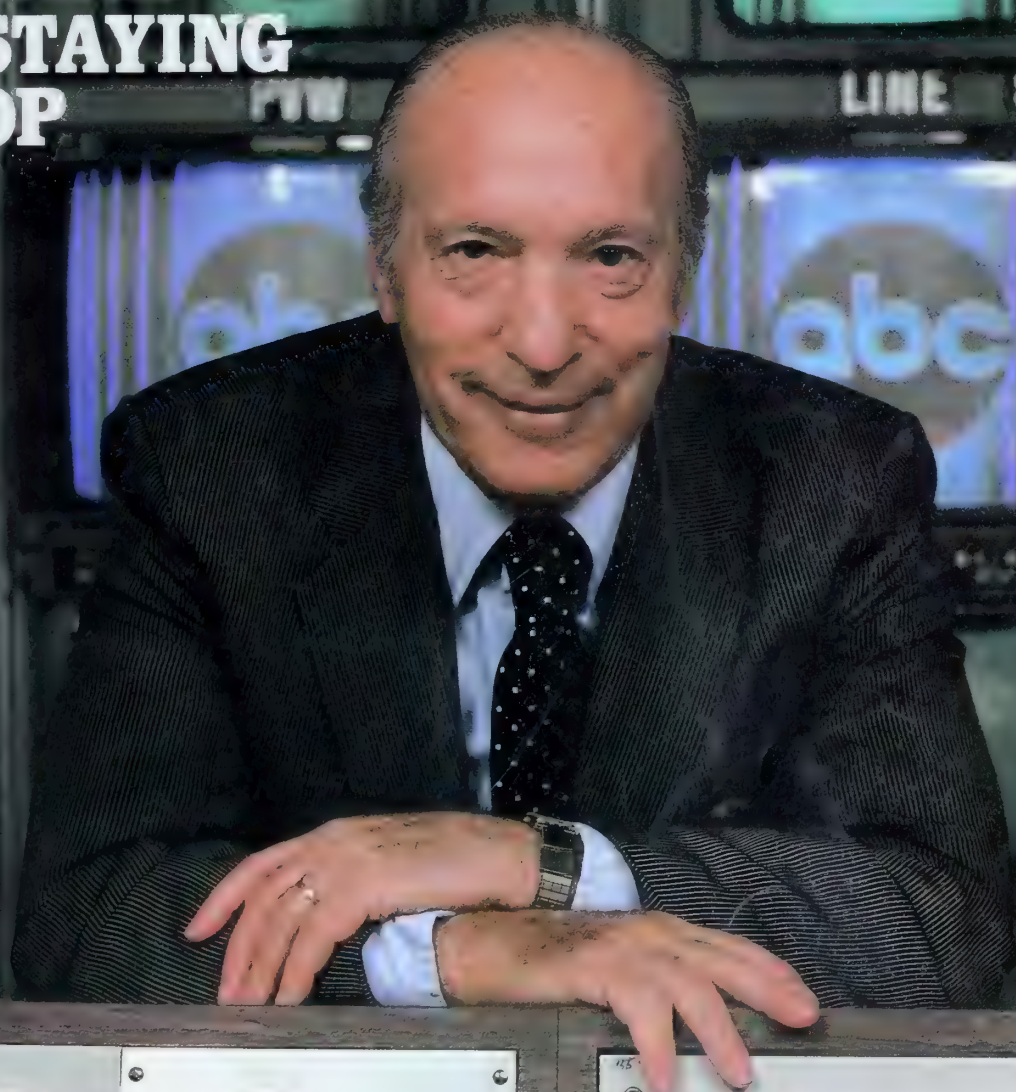
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Thoughts on the Business of Life is presented
to senders of texts used.

Children have never been
very good at listening to
their elders, but they have
never failed to imitate them.
JAMES BALDWIN

The father in praising
the son extols himself.
CHINESE PROVERB

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ON TOP



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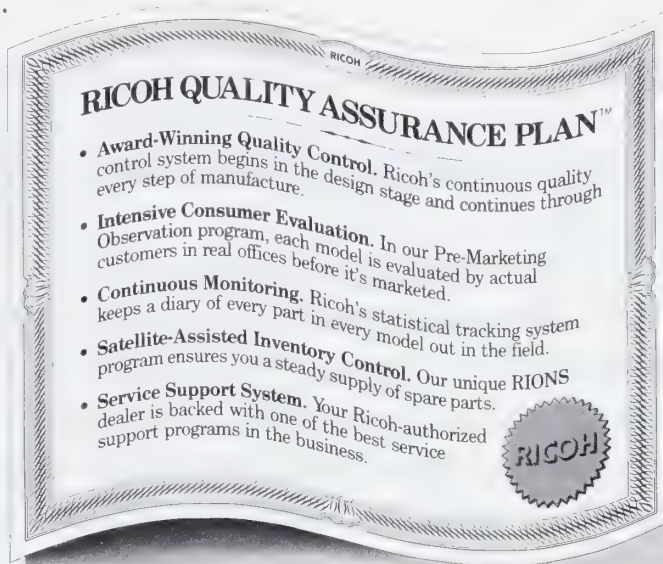
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—Questions about the best ways to manage widely distributed information are resolved by the new alternative.

—Other needs in data communications—flexibility, control, low start-up costs, integrated internal and intercompany data communications—now all come together in one solution.

Now there is Advanced Information Systems (AIS^{*})/Net 1 service, and a new AT&T subsidiary to market it—American Bell.

COMMITMENT TO A NEW ERA “The merging of telecommunications and computer technology has given rise to a new era—one of deregulation and competition,” said Charles L. Brown, AT&T Chairman, in announcing the formation of the new company. “American Bell and its new service—Net 1—amply demonstrate our commitment to this new era.”

AN INTELLIGENT NETWORK AIS/Net 1 service is the cornerstone of American Bell's new generation of services.

It is a distributed, intelligent service to be used in the communication and management of information.

Distributed means it will be available throughout the country.

Intelligent means that Net 1 adds function and capability to existing terminals, and provides the user with the ability to design and control an integrated system.

WHAT IT DOES FOR DATA WHAT AMERICAN BELL DID FOR VOICE.

Net 1 also means that there is no large initial investment. Customers pay only for what they use.

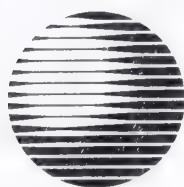
IMPORTANT GAINS IN PRODUCTIVITY Information systems have been a key to productivity in virtually every business. Net 1 will further improve productivity. It will remove technical barriers preventing integration of these systems.

In the same way, Net 1 opens up channels of communication between companies. More timely communications using electronic message distribution and storage. Order entry from supplier to manufacturer to distributor. Claims processing between insurance agents and their carriers. The list is endless.

Net 1 provides a comprehensive network management service and will evolve to accommodate a variety of additional functions.

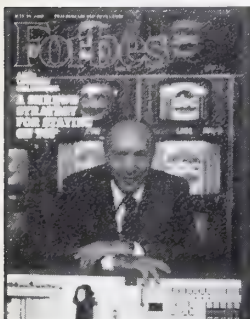
A BASIS FOR THE FUTURE You can make AIS/Net 1 service the basis for planning the future information management needs of your business. Soon it will help you solve today's problems and provide solutions for tomorrow.

Meanwhile, we wanted you to know that American Bell is here. We're in business. And our first service will become the new alternative in data communications.



American Bell

July 19, 1982
Volume 130,
Number 2



66 Cover Story: "When radio came in, everybody thought the record industry was ruined," says ABC's Leonard Goldenson. Nobody misses the analogy.



32 Britain: Round One to Mrs. Thatcher.



54 Greif Brothers: "The things you decide not to do are just as important as the things you do."

31 Trade:

The Japan Lobby

Within the last five years it has quietly become the largest, best-funded foreign lobby in Washington, counting some famous names indeed among its 140 registered agents.

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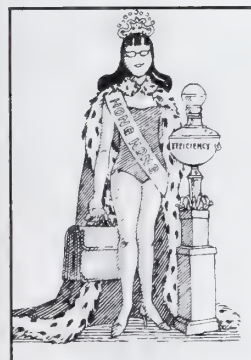
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We were taken

We make no claim to anything approaching omniscience and, in this spirit, confess to having been hoodwinked in our issue of Oct. 12, 1981 when, in a short article, we took at face value Saxon Industries' claim that it was about to enjoy an earnings turnaround. What followed, as it happened, was a massive writeoff and a trip to bankruptcy court. But, for current diligence, we hope to be forgiven past gullibility: In this issue Associate Editor Richard Stern explains how Saxon deceived not only FORBES but 20 leading banks and a good part of the financial community as well. All taken in by phony bookkeeping. For the story and its unhappy conclusion, turn to page 34.

Corporate strategy

None of the top men at American Broadcasting Cos. attended any of the tonier business schools, but from old Leonard Goldenson down, the ABCers have a nice, firm grip on what the pretentious call corporate strategy. In plain English, corporate strategy means fashioning goals that capitalize on an outfit's strengths and steering clear of its weaknesses. In this issue's cover story, "Staying tuned to tomorrow," Reporter Steven Flax explains why American Broadcasting has abandoned some unprofitable diversification and is emphasizing entertainment rather than technology. Can it be that corporate strategy is nothing more than common sense? See page 66.

Your own boss?

While Liberals like Teddy Kennedy and John Kenneth Galbraith were proclaiming that Big Business was going to eat us all, a lot of smart entrepreneurs were proving how vulnerable many big corporations are. Now, thanks to that vulnerability and to a good deal of venture capital, the entrepreneur is again a popular hero in the U.S.A. Do you have the stuff to emulate them, to found an Atari or Apple Computer, to run your own business? How do you start? Choose associates? Pick products? Finance? Survive growing pains? These are some of the questions Venture Capital Columnist Thomas P. Murphy will answer in a series entitled "So you want to go into business for yourself." The first installment is on page 121.

A little place at the seashore versus the Ritz

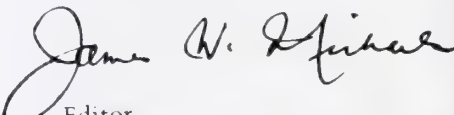
A good many people, whizzes at cost accounting in their businesses, are softheaded when it comes to owning vacation property. In Personal Affairs, Senior Editor William Flanagan does some devastating arithmetic on how much a weekend vacation home really costs. It might be cheaper to take your family to Europe every year, deluxe all the way. Starts on page 94.

Don't shoot the piano player

Is Paul Volcker a sadist? No, says Columnist Ashby Bladen, page 114. The only realistic alternative to high interest rates at this time is runaway inflation. Some choice!

To cut? Or to excise?

Several readers accuse me of inconsistency in using the verb "to excise" in an item criticizing verbal pretentiousness (*Side Lines*, June 7), rather than the simpler "to cut." Our rule is: Don't use a fancy word when a plain word will do as well. But there are times for using the less common terms. "Excise" implies ruthless, surgical removal—what I intended. Effective English is not necessarily basic English.


Editor

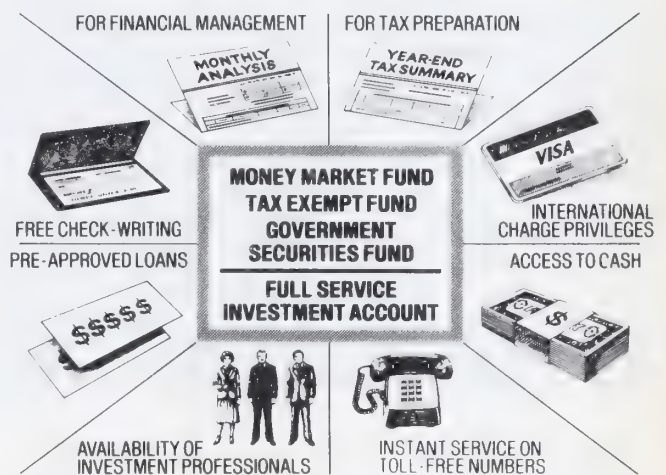
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Coke and calories

Coca-Cola seems to be thinking of bringing out a one-calorie Coke, the first time it has considered putting its two most sacred trademarks, the most precious and jealously guarded in the world, on a diet drink. Market research teams have been buttonholing New York shoppers and screening for them an elaborate TV commercial for a one-calorie Coca-Cola. At Coke's Atlanta headquarters, the comment was, as usual, "no comment."

Self-help for health

The steadily rising cost of health insurance is forcing more companies to set up their own plans rather than buy outside coverage. "It's a booming trend," says Fred Hunt, executive director of the Society of Professional Benefit Administrators in Washington, D.C. Hunt thinks that as much as a third of all workers and 10% of the population (primarily in the West) are now covered by self-funded health or pension plans. One advantage cited for the idea is that the money can be put into a tax-exempt trust and kept under the employers' control. As protection the companies buy "stop-loss" insurance, which takes over when claims exceed a preset level. (It can also cover health costs for individual employees beyond a fixed amount.) One promoter of the plans says that the ideal size for self-funded health insurance is a company with 300 employees, preferably young.

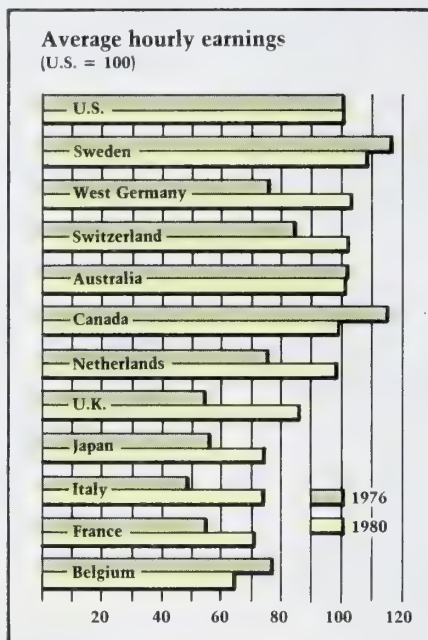
The engineer market

After surveying 255 companies, the National Science Foundation has filled in some blanks in the engineer employment picture. The U.S. is short of computer scientists and computer and electrical engineers, the foundation says, and is also hurting for systems analysts and petroleum and electronics engineers. Supply and demand are roughly in balance for chemical, industrial and mechanical engineers and for earth scientists. The country has a surplus of chemical and civil engineers, mathematicians, and physicists.

The world's paychecks

The U.S., traditional pacesetter for industrial wages, continues to lose ground, not because American paychecks are shrinking but because

those in other countries are growing. In 1976, for example, only three countries, Australia, Sweden and Canada, paid more per hour; by 1980, while Canada had dropped back (because of its depreciating dollar), two others, West Germany and Switzerland, had moved ahead of the U.S., according to calculations based on International Labor Organization figures by



Towers, Perrin, Forster & Crosby, the New York-based consultants (see chart). Indexing U.S. wages at 100 for both years, Towers, Perrin found that Switzerland, which was paying 82% of American hourly rates in 1976, had moved up to 102% in 1980 (the latest year with available data). In West Germany, where workers got 77% of U.S. wages in 1976, they were earning 103% four years later. In most other industrial countries, too, the gap was closing. The United Kingdom had moved from 53% of the U.S. index to 86%; France from 51% to 71%; the Netherlands from 76% to 97%; Japan from 57% to 74%; Italy from 49% to 74%. Even in the Third World, there were gainers. Brazil, whose wages stood at only 25% of the U.S. index in 1976, was up to 38% in 1980.

Brakes for diesels

Sales of diesel cars, which speeded up sharply as gasoline prices rose, have skidded into a decline. One reason, the experts think, is that the cost of diesel fuel caught up with that of gasoline. A survey of 6,000 service stations by the American Automobile

Association this spring showed both fuels averaging \$1.24 a gallon. Anti-oil-company critics claim that diesel, the same fuel as No. 2 heating oil, should be much cheaper, but the industry says otherwise. "It's not that diesel fuel prices are high. It's that gasoline prices are so incredibly low," says Ron Jones of the American Petroleum Institute. (The cost of gas, in fact, has again jumped ahead of diesel.) Another factor could be the problem of finding diesel at the pump. The AAA found only about 15% of the stations carrying it. Diesel does provide a powerful edge in miles per gallon, but that has to be weighed against the price of the engines. (An Oldsmobile diesel, for instance, costs at least \$650 more than a gasoline power plant.) Whatever the reason, diesel sales, which jumped in 1980 and 1981, have slowed, from 175,000 in the first four months of 1981 to 113,000 in the same period this year. Olds, which saw its diesel engine sales drop 43%, blames both the parity in gas and diesel prices and the fact that the roads now are full of high-mileage small cars, offsetting diesel's advantage.

The old club tie

The private club, long a favorite target of antidiscrimination groups, has been put in line for an attack from a new flank—the American Bar Association. Earlier this year the ABA (which represents more than half the country's lawyers) voted to ask Congress to revise the 1964 Civil Rights Act to cover clubs. What the ABA wants does not focus on discrimination by race, creed or other familiar criteria but on something just as touchy—how clubs are used and how they get their money. The association wants Congress to lift the Act's exemption for clubs that get a "substantial" part of their income from members who are reimbursed by employers for club charges or who take such spending as a tax deduction. ("Substantial" wasn't defined, but a report to the ABA's individual rights and responsibilities section, which sponsored the proposal, mentioned 20%.) Business-backed revenues, the ABA contends, make a club a "marketplace" (and could affect its tax status). To forestall any action by Congress, the clubs are rallying organizations ranging from the Loyal Order of Moose to the Improved Order of Red Men to the U.S. Jaycees. There is also

Edited by John A. Conway

opposition among the assembled lawyers themselves. The ABA's House of Delegates has been asked to rescind the original resolution in a meeting scheduled to be held in August in San Francisco.

Where we're at

The U.S. center of population, for the first time in history, has drifted across the Mississippi. The Census Bureau's computers placed it at De Soto, Mo., according to the 1980 head count. The 1970 census located it at Mascoutah, Ill., 47 miles east and 22 miles north of De Soto. The creep has been steadily westward, moving from the Atlantic Coast across West Virginia, Ohio, Indiana and Illinois ever since the 1790 census decreed by the Founding Fathers first located the center at Chestertown, Md.

The fat American

Lean times do not produce lean people, according to the health insurance experts. Blue Cross and Blue Shield claim that 80 million Americans—35% of us all—are overweight, with 30 million "obese" and another 15 million "morbidly obese." The report charges that Americans are spending \$10 billion a year just to lose weight and "more dollars are spent on worthless obesity cures than for all medical research combined."

Out of the woods

The Forest Service has come to the rescue of buyers who bid up the price of Pacific Northwest timber to tree-top levels at government auctions during the late 1970s and now can't afford to take delivery. (Douglas fir, for example, was sold at bids of \$650 per 1,000 board feet between 1979 and 1981; today it's worth \$175 per 1,000 board feet.) Starting next year, promises the U.S. Forest Service, it will index delivery prices of western timber up or down according to market conditions. Bidding on a block of timber, in practice, begins at an appraised fair market level and often is bid higher because of competition. But because there is often a lag of months or even years before that timber is harvested and payment falls due, the price can fluctuate substantially. The new plan results from an agreement in principle between the Forest Service and the Western Wood Products Association.



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Occasionally, you'll see a piece on Jack Daniel's Distillery. Like when Jack Bateman broke his arm rolling barrels to the warehouse. Or when Frank Bobo (our head distiller) had his grandson born. But normally we don't make the paper much. You see, we've been charcoal mellowing whiskey here at Jack Daniel's since 1866. And according to the editor, there's no news in that anymore.



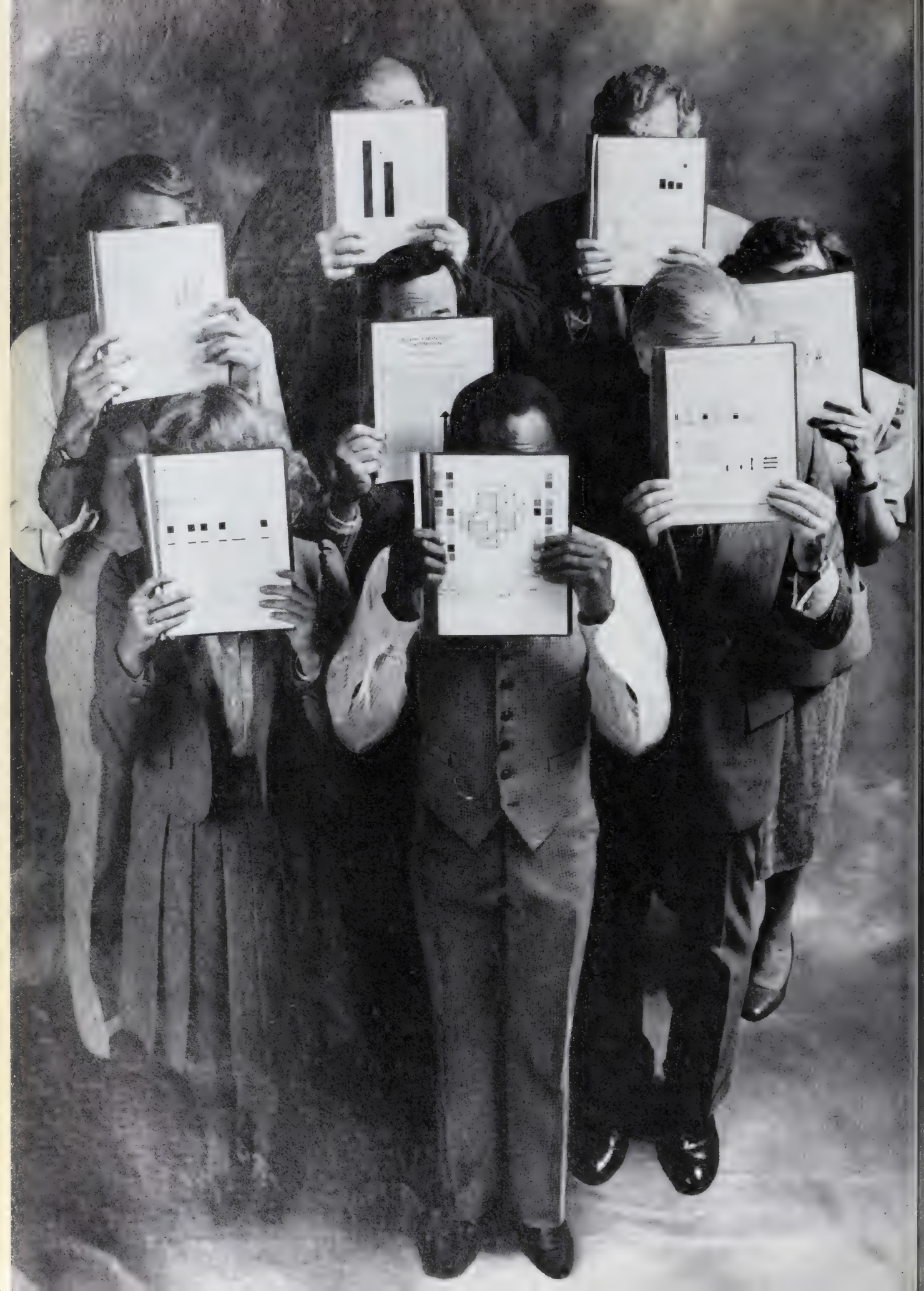
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Follow-Through

Deflating the balloon

"The inflation-hedging boom in real estate has pushed the prices of houses in many areas that, in my judgment, are headed for disaster up to amazing levels." That balloon was going to burst, insurance investment manager Ashby Bladen predicted almost three years ago, but when FORBES published his words (Oct. 15, 1979) they were received at best with skepticism, at worst with derision. A look behind the latest data on home prices, however, shows that Bladen was only too right.

True, the numbers on the price tags for both old and new homes have actually increased by 4% to 5% over the past year, but those raw statistics tell a totally different story when adjusted for inflation. Factor that in, and the drop in home prices since 1979 averages out to 17%. Moreover, even that calculation does not take into account the money a home seller gives up when discount financing, low-rate second mortgages, adjustable-rate mortgaging, "buy-downs" and other legerdemain have to be used to close a deal. These special arrangements now figure in 70% of all home sales, according to the National Association of Realtors, and their impact, combined with inflation, brings the loss up to 25%, most of it generated during the last year. The villain, says the Realtors' chief economist, Jack Carlson: interest rates. Real interest rates in the postwar years, Carlson says, were about 3%, when inflation was stripped out; today, they are above 10%. "There is still a shortage of housing," he adds, "so you would expect housing prices to go up; interest rates dampen that effect."

No. 3 and doing fine

The vast firmament of the bond market may be mostly darkness and confusion, but it has bright spots. FORBES found one last summer in tax-exempt unit investment trusts, more specifically in the insured funds pioneered by Chicago investment banker Robert Van Kampen (FORBES, Aug. 3, 1981). Starting with \$250,000 in capital, Van Kampen Merritt Inc. had grown to a net worth of \$14 million in six years and ranked third (albeit a distant third) behind stalwarts John Nuveen & Co. and Merrill Lynch in the unit trust business. It dominated the field in insured trusts, with 70% of the total in that category.

Tax-exempt unit trusts have been

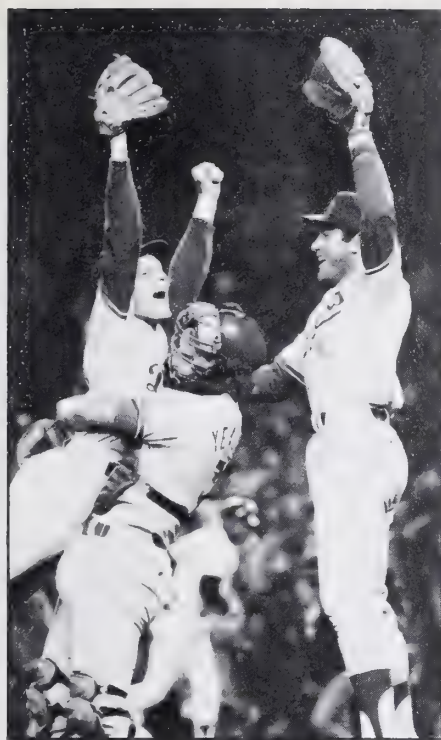
growing at an impressive 36% a year since 1977, despite the beating that municipals generally have taken from high interest rates and inflation. The insured trusts (the trust buys a policy guaranteeing interest and principal) also began registering significant growth last year, and that trend has continued. Traditionally, such paper never commanded more than 1% of the municipal market, but in 1981 its share rose to 2% and this year it is up to 3.6%. Van Kampen's slice of the whole municipal market has been growing with the pie, from 12% last year to 20% in 1982—still third but less distant.

"We've come of age in 1982," says Van Kampen, a 43-year-old fundamentalist Christian who tithes 10% of the firm's gross profits to charity. "We're not a flash in the pan." Nor does being number three bother him. "There are 40 funds out there," he says, "and only three players." He thinks, in fact, that he gains an advantage because his rivals are the biggest guns in the game. Van Kampen Merritt has built its sales strategy around reliance on regional brokers and dealers. It keeps them happy by allowing them to put their own names on the trusts it sells them (the Van Kampen label is almost invisible in the sales literature), by cutting them in for an extra share of the profits and by absorbing the loss if values drop while a fund is being put together. Nuveen and Merrill Lynch may be names to reckon with, but, Van Kampen says, "the regionals don't want to tie up with the giants."

Van Kampen himself has no such qualms. The firm has been involved with private-placement real estate syndicating, but it is getting set to go public with a \$25 million deal in combination with Bache Halsey Stuart. In this phase of the investment business, Van Kampen says, "you can't get away from the big ones." He is as bullish on this line of work as he is on bonds ("it's dynamite"), and on bonds he is ebullient. "I'll be very surprised," he says confidently, "if we're not 30% to 50% better in 1983."

Who needs next year?

An old baseball adage says that if a team isn't a strong contender by the time of the All-Star break in mid-July, it will watch the World Series at home on TV. Unless the current World Champions, Peter O'Malley's Los Angeles Dodgers, which FORBES



The Dodgers win the 1981 World Series
Quiet bats but clicking turnstiles.

described before Opening Day (Apr. 12) as "the best-run franchise in all of baseball," shape up fast, they will be relaxing at home this fall.

O'Malley's Dodgers are suffering from anemic hitting, in-and-out pitching and iron-glove fielding. Late in June the team was starting to come around but still playing barely above .500.

Those gloomy stats, however, do not dim FORBES' appraisal of the way O'Malley runs his franchise. Though the Dodgers' field performance has faded, the team's marvelous marketing machine hasn't failed at the gate. By the end of last month, the Dodgers were averaging more than 43,000 fans a night at home, far ahead of any team in baseball. If the turnstiles in Los Angeles keep clicking at that 43,000-a-night clip, the Dodgers will set an alltime major league attendance mark of 3.4 million, their fifth such record in six years. (The off year was blighted by the players' strike.)

Rack those numbers against two former National League champions, Cincinnati and Pittsburgh, which are also having bad seasons on the field. Attendance for the Reds is down by 25%, while the count of Pirate fans is off 50%. And what of the hated Yankees, who were whipped by the Dodgers in last year's World Series? The now-grounded Bronx Bombers are nine games off the pace and averaging a mediocre 28,000 fans per home game in New York.

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Crazy jury

SIR: It is obvious that Hinckley was tried by a jury of his peers, based on the verdict.

—James W. Hart
Punta Gorda, Fla.

Bureaucratic recovery?

SIR: MSF says that we will reach a new economic utopia ("Triggering Recovery Takes Only a Little Squeeze," *Fact and Comment*, May 24) if we take a little more than the current 44% of GNP in taxes (surtaxes or canceled tax cuts). To provide new incentive for bureaucracy?

As for a \$10 tax on oil, people who ride motorcycles can escape paying the bills for bureaucracy, and the folks who have to drive cars for a living will pay those bills.

—W.M. Buescher
Pigeon Forge, Tenn.

Lack of interest

SIR: The sanctity and the sanctuary that you claim for Social Security wasn't enough ("The GOP Was Nearly Suckered On Social Security," *Fact and Comment*, June 21). Social Security didn't stop the 20-year Treasury raid of nearly \$20 billion from Social Security through low- or no-interest use of its funds.

—E.E. Ball
Sun City, Ariz.

Let taxpayers spend it

SIR: I see that the Oklahoma State Legislature ("His father's son," May 24) is working overtime to figure out how to spend its reputed \$500 million budget surplus. I recommend rebates to the taxpayers, who probably would spend the money more fruitfully than would the politicians and bureaucrats.

No charge.
—J.S. Vanderploeg
Toronto, Ont.

Disastrous investing

SIR: John Dorfman's portfolio that "a reasonable person might have purchased" (May 10) after reading my bestseller, *Crisis Investing*, runs \$100,000 down to \$58,263 from September 1980 to April 1982. What "rea-

sonable person" would have created a portfolio based upon a book published, not in September 1980 but a year earlier, in September 1979?

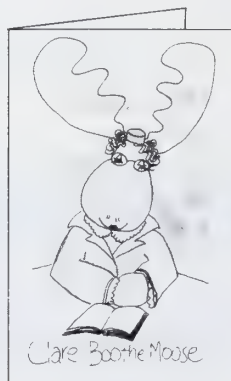
—Douglas Casey
Washington, D.C.

The September 1980 starting date was chosen because it was the month Crisis Investing first hit the bestseller list, and ads for the book were still touting "low-priced" energy stocks and "penny" silver and gold equities.—Ed.

Moose reading

SIR: Thanks [for that quote of] Paul Hendrickson's (*Other Comments*, June 7). What a risky thing it is to be a "celebrity": I found this at a greeting card counter in a department store. I moose admit I was moosed amazed.

—Clare Luce
Honolulu, Hawaii



Truth hurts

SIR: When you first started running Ashby Bladen, he made me sick. Now I love him. Sometimes the truth takes some getting used to (*see Follow Through*, p. 12).

—Allan Cox
Chicago, Ill.

A deadly business

SIR: No lessons relevant to the U.S. Navy can be drawn from the Falklands (*Fact and Comment*, June 7) for the simple reason that the British task force does not include one or more nuclear powered super carriers with air superiority fighters.

The Argentine air force would have

been afraid to take to the sky just as their navy was reluctant to venture forth against a mere handful of nuclear attack submarines.

—William K. Sharpe
St. Paul, Minn.

SIR: Billy Mitchell did a lot for military aviation but the bombing experiment you mention was a fizzle. General Mitchell's supporters claimed success at the time. The Navy did not choose to reply because the feeling was that the fledgling air force needed more support than it was then getting.

—Herman Reich
Rear Admiral U.S. Navy (Ret.),
Marina del Rey, Calif.

SIR: An Australian friend aspired to christen a British battleship the *HMS Irregardless*. He would suggest (were he alive to twit the admirals of all sea powers) that the next class of surface ships be the Sheffield class, with these names: Irresistible, Irrelevant, Irretentive, Irretrievable and Irregational.

Care to add to this list?
—Richard A. Miller
Middletown, Conn.

Initial ignorance

SIR: Re "It's T.S. That South Americans Are Sore At Us" (*Fact and Comment*, June 21). You've confounded me. What is "T.S."? Is this something taught at Princeton that I didn't learn?

—William B. Hackenberg
Erdenheim, Penna.

SIR: "T.S." stands for another way of describing the tensile strength of manure. While it is realized that world events sometimes make us feel like using phrases such as this, must one publish them for readers such as my mother, who never misses an issue of your fine magazine, to see?

—Thomas C. Beusse
Augusta, Ga.

Madness of crowds

SIR: Reading Dr. Sully Blotnick's column ("Waiter!" May 24) about how patrons really prefer crowded restaurants, while professing the contrary, reminded me of a Yogi Berra dictum: "Nobody goes there anymore—it's too crowded."

—Jerry Nelson
Chicago, Ill.



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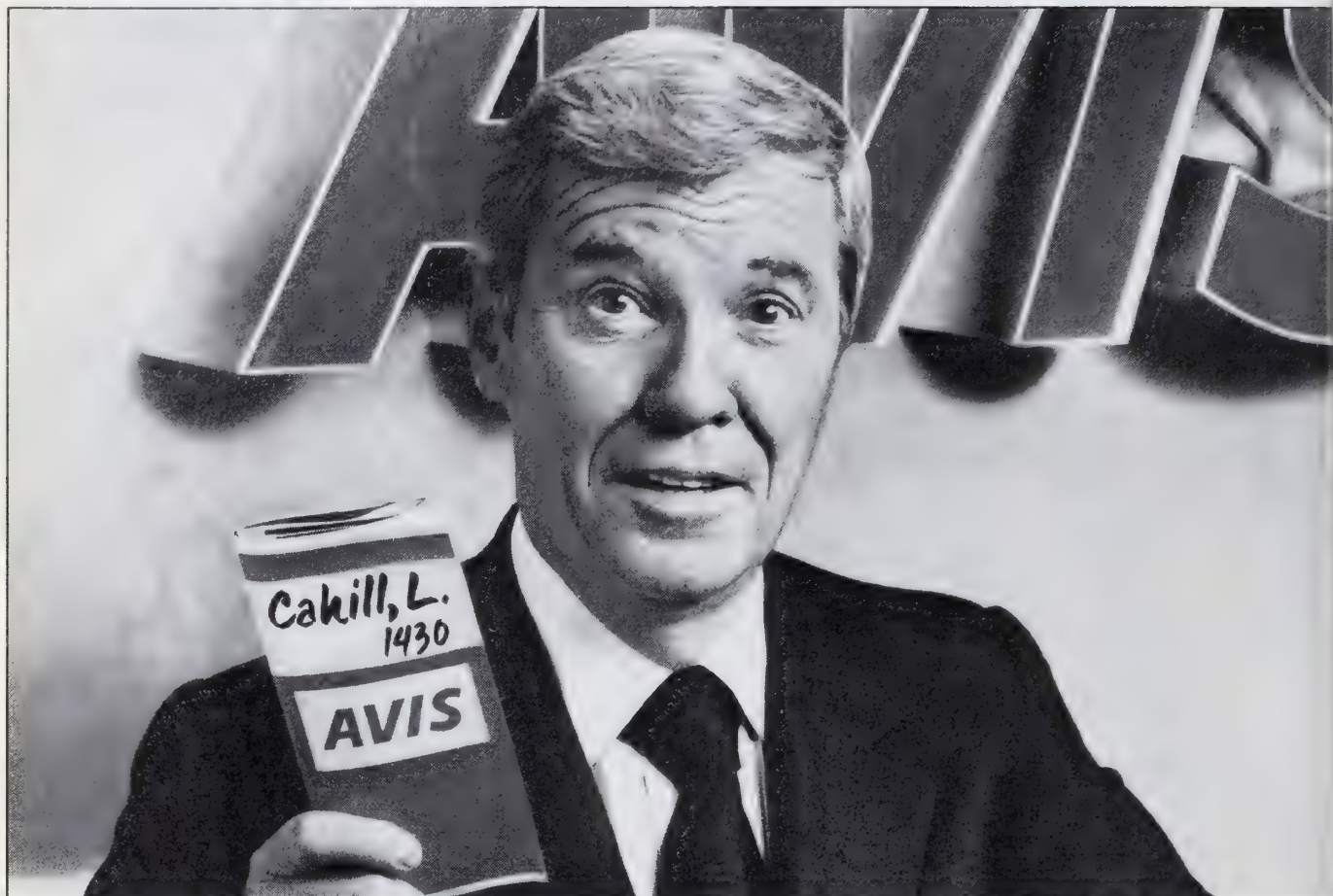
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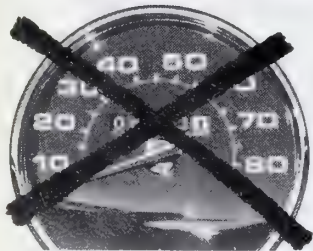
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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

HAIG PINPRICKED HIMSELF TO DEATH,

interred in the turf that too much concerned him. George Shultz will be much more a soldier in the service of his chief.



TUT TUT

... Now wasn't that a nutty thing to do.



IT'S IMPORTANT, THOUGH, TO KEEP OUR TEMPER

over the Hinckley travesty because, aside from such incredible—but occasional—lapses, trial by jury is the greatest single insurance for preserving our system of justice.

OUR DEFENSE CAN'T AFFORD THIS JACKSON TRIBUTE

Washington's Senator Henry Jackson is one of the upper house's best and he deserves suitable recognition, suitable tribute from his colleagues.

But substituting in the defense appropriation his constituent Boeing's 747s for Lockheed's C-5s is an appallingly unaffordable form for that tribute to take.

While it's recognized that senators, in order to stay senators, must stir themselves on behalf of constituents as consequential as a Boeing, the rest of Jackson's colleagues who supported this substitution have absolutely no such excuse. Playing ducks and drakes with such a defense necessity as significantly improved capability in our military airlift is inexcusable.

As Lockheed points out in this bull's-eye advertisement—(excerpts) "Military leaders agree that America's most urgent airlift need is for more aircraft able to handle outsized cargo. Only the C-5 can handle outsized cargo.

"If you can't load them fast, you may be too late.

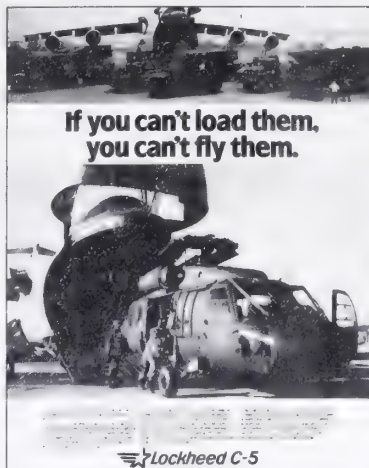
"Only the C-5 can carry two rows of 5-ton trucks. They simply drive into the C-5 and then drive off after landing. That's typical of the C-5's fast loading efficiency. Its cargo compartment was designed uniquely for military cargo.

"If you can't land where cargo's needed, what's the use?"

"The world's biggest commercial cargo jet requires long, high-strength runways to land fully loaded. The C-5 can land fully loaded in less than 4,000 feet. And then it can taxi off of the runway onto dirt, gravel, or snow to unload fast through its low cargo openings.

"If you have to use the wrong aircraft, it can mean failure.

"Military airlifters are designed from the start with military needs in mind; commercial cargo jets are designed with commercial cargo in mind. The difference between the two is as big as the difference between victory and defeat."



CAPITALISM AND QUALITY

The following is an excerpted interview that ran recently in Quality magazine.

Q: One definition of free enterprise is "Each man acting in his own best interests." Capitalists have been criticized, for example, for pollution and for dumping toxic chemicals.

Malcolm S. Forbes: Let me point out the difference between the intentional dumping of toxic wastes and some of these other things. You've got to remember that through the first half of this century, the symbol of a thriving community was belching smokestacks. They were the visible sign of jobs—of people at work. We've come to realize that there was an offset.

Few people realized the menace of pollution until you could almost walk on Lake Erie. There just was not an awareness. Industry has spent a great deal of money since we've become aware of the problem.

We have a generation of entrepreneurs now who realize that there is no profit if you have Love Canal come back to haunt you. You've got to think broader.

Q: Can free enterprise include some government intervention?

MSF: Of course. If it had not been for acts of Congress—and Congress only moves when the public's aroused—we wouldn't have moved as quickly. Management would be reluctant to spend when they're competing, say, with the efficiency of Japanese steel mills. They've now spent a big piece of their capital that won't add anything to production. They are treating a problem that heretofore they didn't have to take into account.

Government has its function to play as a guardian; but it doesn't necessarily have to be an adversary.

Q: The Japanese don't seem to have the adversary relationships that we still have. Do you believe that we must have this adversary relationship between management and labor?

MSF: No. But I think that the Japanese approach is never going to be totally applicable in this country. Americans are never going to be happy doing exercises before they go to work, wearing the company colors and singing the company song. We regard that as an imposition on our freedoms. We're not looking for paternalism.

But our situation is becoming less adversarial under the dire necessity of the kind of economic climate we've had prevail. We find less demand in labor negotiations. I think we will have less animosity than we've had in the past. There's been a maturity growing among working people; but equally, there's a greater awareness among management that you can't make decisions in a vacuum.

Q: How do you view the American worker?

MSF: I think that there's no question that our work ability and philosophies are fine. In general, if Americans are going to do it, they want to do it well.

But to watch the Japanese work: They work with an intensity that I think is unmatched. They are motivated. They also have a quality of life that isn't as demand-

ing as ours. We have different lifestyles. It's neat when you can enjoy the job, but our total joy is not always on the job. We probably work with less intensity because we are a diverse people. But the other side of that coin is that filling leisure-time demands employs more people than manufacturing now. If we didn't have this variety of interest, we'd have a smaller economy.

Q: Should management be held to a three-year or five-year accounting?

MSF: No, that's too long. An annual accounting is fine. I think that most firms have three-year plans or five-year projections. They're fine as long as they're not straitjackets. But the accounting has to be annual.

Q: There is a tendency to blame senior management for most of the problems in a company. Is this a fair generalization?

MSF: Absolutely. What do you have them for? The buck has to stop somewhere. That's what a CEO is being paid for. Not to do everything. Not to know more than anyone working for him. Not to divine everything in the future, but to be able to evaluate what his research and development and marketing departments tell him are the things the company should be doing. You can't over-blame senior management for problems in a corporation.

Q: Even with stringent government regulations?

MSF: Well, they can't overcome absurd government regulation.

Competitive checks

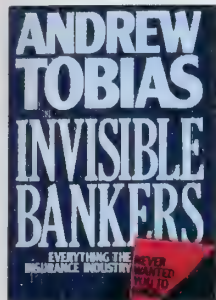
Q: Do you think that senior managers recognize what the concept of quality is? Do you think they recognize what the consumer is looking for?

MSF: As never before. Brand name used to be considered the guarantee of quality. You always thought you could complain about it if it had a big company's name on it. You kind of felt, "Gee, they're going to stand behind this." That ain't necessarily so. The public's awareness of quality has increased as inflation has increased. They won't accept shoddiness for their money.

Q: What can be done to make senior management more aware of the importance of quality?

MSF: The consumer is doing it. That's part of the free enterprise system. Look at what's happened to American cars. There have to be constant quality checks. The reputations of the German and Japanese cars have made us conscious of that. Competition has created an awareness. I think that the best policeman is the desire to stay in business, and quality is the technique. If we're to preserve the freedom of business to compete and move ahead with rapidity, we have to understand that the sky's-the-limit is no longer enough. The selling is no longer enough. The quality of manufacturing, the quality of the environment and the quality of management: These are of prime consideration.

BOOKS



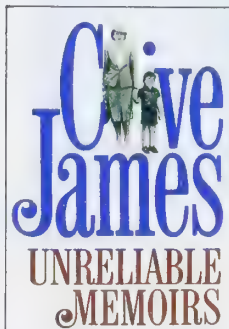
The Invisible Bankers—by Andrew Tobias (Linden Press/Simon & Schuster, \$15.50)—is a lively examination of many aspects of all types of insurance. While the industry wouldn't agree with a lot of what's said, there is much said to which they would say Amen.

Excerpt: An erstwhile friend of mine with a chic little Manhattan office and a secretary had his IBM Selectric typewriter stolen. Actual value at the time: about \$600. Loss claimed: \$3,000—for his typewriter, but also for inventory he alleged to have had in the office. The insurance company paid. How could it possibly prove, if it even suspected, that inventory hadn't been stolen? And what would such a fight have cost?

Needless to say, had my friend gone into a bank and stolen the same \$2,400, he would have run a considerable risk of going to jail. Instead, he went to Southampton.

Unreliable Memoirs—by Clive James (Alfred A. Knopf, \$10). One of England's most acerbic critics turns his perceptive gaze and brilliant prose on his first 22 years of life in Australia, resulting in a slim volume you shouldn't miss.

Excerpts: Once or twice I announced my intention of running away, but my mother defused the threat by packing me a bag containing peanut butter sandwiches and pyjamas. . . . She turned around and looked up at the deck of the Harbour Bridge. I followed her gaze. She was looking at the blue cobweb. Then we did one of those quick, awkward kisses where each of you gets a nose in the eye.

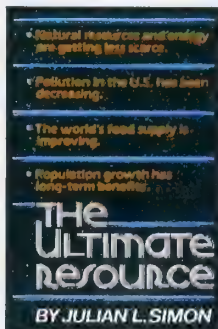


Time Change—by Hope Cooke (Simon & Schuster, \$14.95). Hope Cooke, atypically typical of the type—dwindled wealth, seashore summers, Sarah Lawrence, then off to India to “find” herself—achieved instant celebrity when she married the Crown Prince (soon after, King) of Sikkim, where her acceptance, court life and intrigue were nothing like the glamour Grace Kelly found and enhanced in her principality. India put out the King about the time he put out Hope.

Excerpt: People had been drinking a lot. Many toasts in my honor. Anyway, as I don't drink as a rule, I threw up in the hall as Maharaj Kumar was getting out the car to take me back to the guesthouse. Threw up! Can you believe it! . . . The next day I shuffled out an apology. “Er, er, Your Highness,” I blurted out, “I'm very sorry about last night.” [M.K.'s sister, Cocoola] took my hand, and gazing straight in my eyes, said in this silky voice, “Oh, that's all right, Hope La. You must treat this house as if it were your own.” I didn't know what to say—“I don't throw up in my house, only in others'”? It was mortifying.

The University and the Public Interest—by A. Bartlett Giamatti (Atheneum, \$12.95). Yale's gone and gotten itself a most savvy president. You can see that for yourself in this collection of Mr. Giamatti's assorted observations delivered at assorted occasions.

Excerpt: The authors of regulations are hard to find. Regulations are created by committees; few are willing to take responsibility for a given spool of federal piety. Legislative histories in the Congress are often unclear, offering only the broad mandate to eradicate all harm. It is usually left to some agency or department to specify the will of the people.



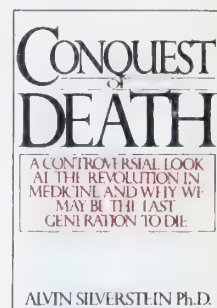
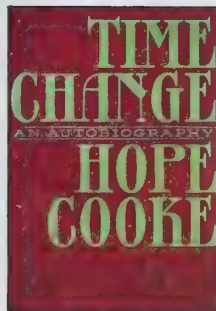
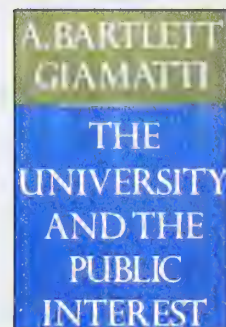
The Ultimate Resource—by Julian L. Simon (Princeton University Press, \$14.50). The most refreshing, inspiring, revolutionary and sound writing on energy, resources, pollution and population yet written. On these subjects, if you don't know what “Simon Says” you won't know quite what you're talking about.

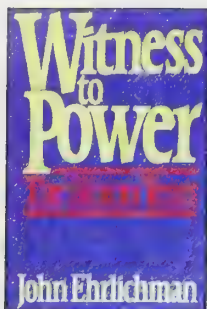
Excerpt: The source of improvements in productivity is the human mind, and a human mind is seldom found apart from a human body. The ultimate resource is people—skilled, spirited and hopeful people who will exert their wills and imaginations for their own benefit, and so, inevitably, for the benefit of us all.

When some famous conservationist tells us that there should be fewer people so that it is easier for him to find a deserted stretch of beach or mountain range or forest, he is simply saying “gimme”—that is, “I want it, and I don't want to share it.”

Conquest of Death—By Alvin Silverstein, Ph.D. (Macmillan Publishing, \$9.95). Not mental. Not spiritual. But, would you believe, the actual elimination of dying from any cause but accident or murder or in war. According to Professor Silverstein, as a result of galloping strides in biomedicine, within a decade or two nobody need die or even age—“a tomorrow in which everyone will look, act and feel young forever.” Perish the thought!

Excerpts: Most of those alive today who are under fifty will probably cheat death. If you survive the next ten years, you may live on indefinitely in youth and vigor—you may become emortal. . . . “Till death do us part” will no longer be relevant when there is no natural death. The prospect of spending thousands of years with the same marriage partner may lose its allure as the centuries go by. The elopement of an 872-year-old man with a 17-year-old girl is an occurrence that will require some psychological adjustment, but time to adjust is one thing that we will have in plentiful supply.





Witness to Power—The Nixon Years—by John Ehrlichman (Simon & Schuster, \$17.50). Ehrlichman was one of the two (Haldeman the other) persons that everyone had to go past to get to President Nixon. They loved their power and exercised it, usually, with nasty gracelessness. With Inner

Circlers like this, Nixon needed enemies? Here, Ehrlichman wreaks cat-o'-nine-tails revenge on the hides of nearly everyone he worked with, against or around in his White House heyday.

Excerpt: Nixon was never happy about Kissinger's feud with [Bob] Rogers and the State Department. Nixon disapproved of State's "softness" and disloyalty, and he expected the White House staff to prevail over the departments (in his behalf) but he also hated acrimony.

Pleasure and Privilege—by Olivier Bernier (Doubleday & Co., Inc., \$14.95)—is mainly about the life of privilege in France as it reached its acme of asininity in the two decades before Louis XVI's decapitation. The absurdities were enough to give etiquette a bad name, and the principal evolutionary contribution of the Court, the flush toilet, flushed 'em down too. The sections about the upper life in Naples and America from 1770 to 1790 are done with far less devastating insight.

Excerpt: All marriages were arranged; the groom and bride often met for the first time at the altar. When, in spite of this, a few couples fell in love and actually remained faithful to each other, it was considered to be in thoroughly bad taste. Every fashionable woman had an official lover (often supplemented by quick flings), every man an official mistress; and only a provincial would invite husband and wife to the same dinner.



A Grain of Truth—by Jack Webster (Harris Publishing, 40 York Place, Edinburgh, U.K., £6.95). A mellow, moving autobiography by an outstanding Scottish journalist. Jack Webster's childhood and early reporter days were spent in the same wee village of Maud where my father grew up and, in nearby Buchan,

had his first newspaper job. Incidentally, from the chapter reminiscing about Dad, I learned more about the founder of FORBES than I'd ever known before.

Excerpt: I was about to witness the moment of death for the first time. The bellows-breathing ended and the upturned eyes reverted to a normal setting but the head came forward in a jaw-jutting determination to live. A last gesture of defiance then death came down over [my father's] face like the final curtain of a theatrical production. The moment itself seemed unworthy of the wealth of time and experience and effort which had gone before.

Plants as Pets—by Robert P. Bauman (Dodd, Mead & Co., \$9.95). If the author, new CEO of Avco, can bring that company back into bloom the way he does plants, stockholders will be applauding as resoundingly as home horticulturists will for this delightful book.

Excerpt: You don't need a green thumb to raise healthy, beautiful pets, just an evergreen attitude that will allow you to disregard plant myths and your own fears, and find out what the plants have known all along—they're the easiest pets to own. Remember: Worry less—use common sense. Have Living Quarters for your plant pets. Don't overwater. Prune—with confidence.

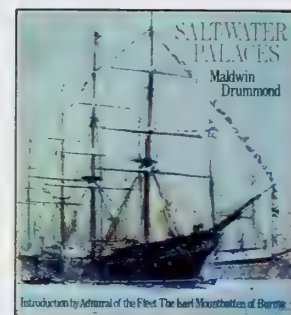


Memoirs of Hadrian—By Marguerite Yourcenar (Farrar Straus Giroux, \$9.95)—is a quite extraordinary, fascinating presentation of the life and thoughts of one of the greater Roman emperors—a humanist and a liberal in a world where Authority was rarely either.

Excerpt: I have little faith in laws. If too severe, they are broken, and if too complicated, human ingenuity finds means to slip easily between the meshes of this trailing but fragile net. Respect for ancient laws . . . [can] serve to pillow the inertia of judges. Most punitive laws fail to reach the greater part of the culprits; our civil laws will never be supple enough to fit the immense and changing diversity of facts. Laws change slower than custom, and though dangerous when they fall behind the times are more dangerous still when they presume to anticipate custom.

Salt-Water Palaces—by Maldwin Drummond (Viking Press, \$16.95). Depicts luxurious yachting as it was done from Victoria's day to the end of Edward VII's. Lord Mountbatten's introduction contains this bit of irony: "I shall certainly never forget the enormous pleasure I had in my 66-ton yacht *Shrimp* both in northern and in Mediterranean waters. I have since had five small motor yachts, my present one in Ireland being *Shadow V*, all of which have given me equal pleasure." It was in *Shadow V* that Lord Mountbatten was blown to smithereens by terrorist bombs.

Excerpt: A view through the masts used to be a particular delight, for there was expression there of infinite variety. The strength of modern materials has made a similar glimpse today an antiseptic experience. The real loss is the view below. The warmth of timber has been replaced with cold materials more at home in a kitchen. The feel and atmosphere have disappeared and along with them the smell that could tell you instantly whether the boat was reasonably sound or suspiciously ripe.



B.C. FORBES— A THREE-WAY EXPERT

Dear Mr. Forbes: I had the pleasure of meeting your father briefly during the first Masters Tournament at Augusta in 1934 when I was a ranking amateur golfer and winner of the French Amateur. I thought you might like to have the enclosed clipping (right) from the *American Golfer* of May 1934.

—Bobby Knowles



Golf, Finance, Food

This is a most unconventional snapshot of a man who is known to millions. His name is B.C. Forbes, editor of *FORBES* magazine. He is one of the keenest golfers in the country, but this picture has nothing to do with his back swing. At a critical moment someone told him there was a free barbecue—an old-fashioned Georgia barbecue—near the first tee. Mr. Forbes is Scotch. "You mean," he said, "there is food near at hand for which I don't have to pay anything at all?" He turned and marched off to the barbecue.

B.C. Forbes admits that he can not beat Bobby Jones, for he has played with him more than once. But in spite of the fact that he is Scotch, he will bet you all the money he can think of—and thinking of money is his business—that he can give M.H. Aylesworth or Rex Cole a stroke a hole and still collect. Being a Scotchman he takes his golf seriously, insisting on playing stymies as they help to remove any light-hearted levity that may creep into the game.

THAT DOYEN OF NIGHTLIFE COLUMNISTS, EARL WILSON

sprinkles his people-full chatter with many a chuckle. Some delightful examples:

"The *Hollywood Diet* inspired diet jokes. I reprinted my B.W.'s long-ago observation, 'The hardest part of a diet is the first day because the second day you're not on it anymore.'"

"Sally Field in the film *Absence of Malice* said, 'My

father was an investment banker.' Paul Newman replied, 'So was mine but they called him a loan shark.'"

"Buddy Hackett had charisma as a boy. But it cleared up."

"Why did Elizabeth Taylor want a Tony? Because she'd never had a Tony. She'd had a Nicky, a Michael, a Mike, an Eddie, two Richards and a John but she'd never had a Tony."

THE TEST OF GOOD DRIVING

lies in arriving.

IF A BUMPER STICKER

can't contain your point, do you have one?

Q: HOW IS THE FED DOING? A: HOW CAN YOU TELL?

By M.S. Forbes Jr.

The confusion over the doings of the Federal Reserve Board was recently underscored to this writer.

Last month the Treasury Department floated a trial balloon to curb the independence of the central bank and its chairman, Paul Volcker. (The balloon popped, but there will surely be others in the months ahead if real interest rates stay high.)

Treasury's beef: the Fed's "erratic" monetary policy, which oscillates between excessive ease and excessive tightness in providing credit to the economy. The result of this roller coaster course, according to Treasury officials and other monetarists, is sky-high interest rates.

It may be news to cash-strapped borrowers and to the financial markets, but the central bank, according to these monetarists, has been printing too much money for the past six months.

"Look at these charts," an angry Beryl Sprinkel, Treasury Undersecretary for Monetary Affairs, told a

couple of *FORBES* editors and me at a lunch here a few weeks ago. They showed a zigzag pattern in the behavior of various measures of money. "The monetary base [which is made up of currency in circulation and bank reserves] is the key to monetary policy, and that's something the Fed has control over," Sprinkel said. Since October the monetary base has been growing at almost a 10% annual rate, more than it did during the inflationary 1970s.

"If this is not corrected," Sprinkel went on, "the painful progress we've made against inflation will be thrown away." If the monetary base is the linchpin and if it is not difficult to manipulate, why doesn't Volcker do it? Sprinkel threw up his hands in despair.

But not long after, I talked to a few members of the other half of the economics profession, the Keynesians. These people vigorously maintain that the current level of interest rates is proof that the Federal Reserve is squeezing too hard and that this stringency will cripple any economic

recovery. "In 1931," one of them warned, "real interest rates were as high as they are today. The Fed stayed tight, taxes were raised—and the economy contracted even more."

Too loose? Too tight?

The polarity points up a simple fact: There is currently no reliable guide for the Fed in determining how much credit it should provide the economy.

This confusion wasn't always so. From the end of World War II to the late 1960s, monetary policy was governed by the Bretton Woods system, the so-called gold exchange standard. We forget that during those years the dollar was tied to gold and other currencies were tied to the dollar.

When a currency came under attack in the exchange markets it was the signal that corrective action had to be taken. The system worked fairly well. The Western world had good economic growth and little inflation.

We have been floundering since we demolished Bretton Woods between 1968-71.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

Stroking the Victim

With big headlines telling us that unemployment, at 9.4%, is at the highest level in 40 years, the political balance shifts in favor of advocates of an instant fix. Their typical prescription: federal "jobs" programs and gunning the money supply. That's like ordering a sunlamp for a heat stroke victim.

—Wall Street Journal editorial

Relative Pavilion

At the Knoxville World's Fair, the new \$12.4 million United States Pavilion, a slope-sided six-story pile whose main distinction is that it is in small part solar-heated and solar-cooled, looks like a factory that was designed by the factory owner's son-in-law.

—E.J. Kahn Jr., *New Yorker*

The Price of Crime

In Saudi Arabia, yes, they cut off the hand of a thief. So, every year, they cut off—what, six, seven people's hands? And what is the population of Saudi Arabia? Seven million? In Saudi Arabia, people do not steal. Is that worse than in America, where there are not these "brutal" punishments, and 15 people get killed or banged on the head or something every week on Park Avenue? Which is the more important? The lives of the people who get murdered there? Or

the hands of the people they punish in Saudi Arabia? The one is the price you pay to avoid the other. I do not know. Perhaps you prefer to see the dead men on the streets in New York? Perhaps that is not so offensive to you?

—Mohammed Mannei in *Arabia*,
by Jonathan Raban

Time Out

Paul Van Pelt, co-captain of the football team: "It will be strange not to be playing. I know I'll feel some pain when I'm just a spectator, but it doesn't have to be depressing. It's all a matter of getting your priorities straight. Football can become such a big part of your life, and there has to be a transition to something else. Some guys aren't ready for that... but it is time to get on with life."

—Craig Forman,
Princeton Alumni Weekly

Equal Rights, Way Back

In the 1770s and 1780s (truer, perhaps, than would be the case a hundred and fifty years later) American women enjoyed the same freedoms as men and assumed the same responsibilities. On Nantucket, where the men were at sea for weeks at a time, it was the women who took care of business, and they continued to do so even when their husbands returned. Many

shops all over the U.S. were kept by women. Victorian men may have thought of their wives and mothers as fragile, dumb and inconsequential creatures; the men who gained independence for their country made no such mistake.

—Olivier Bernier,
Pleasure and Privilege

"This Time It's True"

One U.S. general in Europe said that while commanders "always have said that they don't have enough of this weapon or that type of ammunition or that type of truck, this time it's true. We just don't have the weapons and the transport we would need to fight a limited war in the Third World, let alone meet a Soviet invasion of Western Europe," he said. "Why? I don't know. Ask Congress."

—Drew Middleton, *New York Times*

Anyone who works would be amazed at what he could accomplish and, more importantly, leave out, if he had only two days in which to do what usually took him a week.

—Jonathan Gathorne-Hardy,
The Old School Tie

Naked Book Babe

Someone once said that writing is like making love, and publishing the book is like having a baby—it's suddenly there, external, naked to the world... I'm mad at being called "the former Hope Cooke" or "ex-queen of Sikkim." I'm 40 years old and people are still describing me as a debutante!

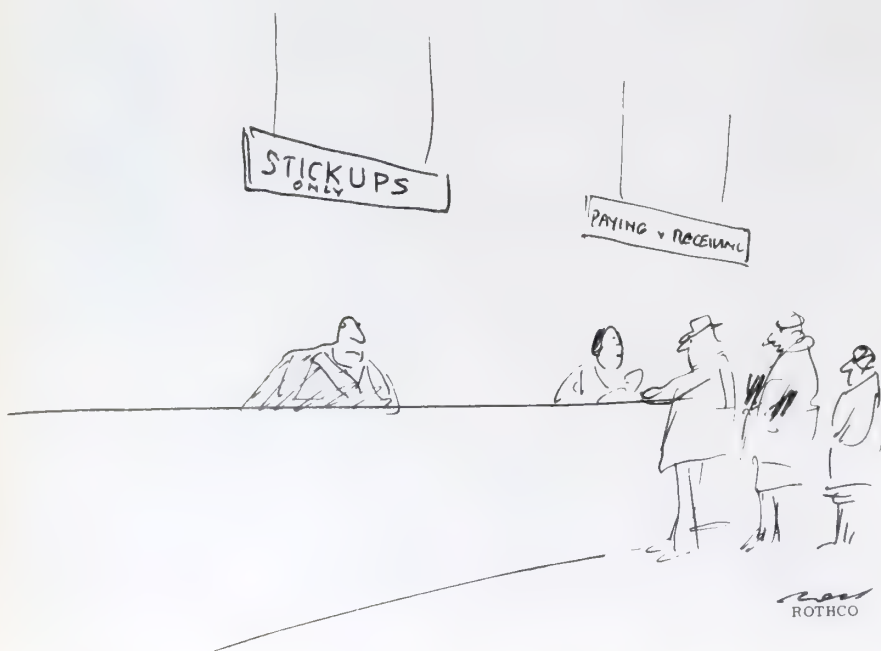
—Hope Cooke,
Gentlemen's Quarterly

Nun's Prayer

Lord, thou knowest that I am growing older. Keep me from thinking I must say something on every subject. Release me from craving to straighten out everybody's affairs. Seal my lips on my aches and pains. I dare not ask for grace enough to enjoy the tale of others' pains but help me to endure them with patience.

I do not want to be a Saint—some of them are so hard to live with—but a sour old person is one of the crowning works of the devil.

—17th century, source unknown



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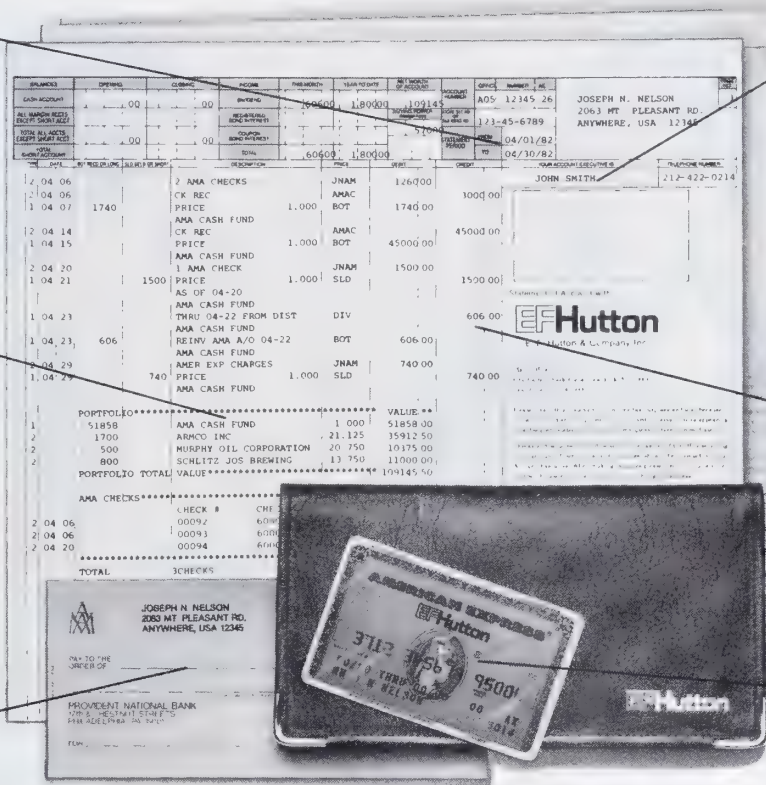
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Are they in resort hotels?
Or business hotels?"*

"Yes."



Some of our hotels are purely resort. (The new Waiohai in Hawaii.) Some are strictly business. (Our Amfac Hotel at Los Angeles.) Some are both. (Our Silverado Country Club & Resort in Napa, Ca., and our Amfac Hotel-Dallas/Ft. Worth, Texas's largest hotel, a resort complex at the airport. And some people go there just for the golf.)

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THE RECOVERY: BEGINNING OF THE BEGINNING

DESPITE THE CURRENT BULGE IN INTEREST RATES, the Henry Kaufman-Albert Wojnilower squeeze-out disaster is unlikely to happen. Yes, the Treasury will need to borrow nearly \$100 billion from June 30 to Dec. 31. But remember this: With the housing industry just about out of the market and nearly everyone's capital spending being trimmed back, there should be enough savings to finance the federal deficit, albeit at relatively high interest rates. Think of the capital market as a barnyard where the big pig simply crowds the smaller pigs away from the trough. It's tough on the smaller pigs but there's still enough feed.

SO WHY ARE SHORT-TERM INTEREST RATES UP AGAIN? In good part because business has been so bad that many businesses have had to borrow either to keep afloat or to roll over longer-term debt. This precludes any early substantial easing of interest rates.

The good news is this. Even ahead of the effective dates of the income tax cuts and Social Security increases, consumer spending was up 1.3% in May. Of course, you can't have a strong recovery on consumer and defense spending alone but even a modest pickup gives a clear sign that the recession is over and the economy is creeping back. But don't expect the tax cut to set off any boom.

INFLATION—SPECIFICALLY RISING FOOD AND GAS PRICES—will offset part of the \$22 billion that Social Security benefit boosts and tax cuts will put into consumer hands between July 1 and year-end.

At the same time, many corporations, strapped by high rates and unconvinced that recovery is near, continue to cut back. Plant capacity utilization has fallen to an anemic 70%. Other businesses are still liquidating inventories.

The White House wants to limit the Fed's independence, claiming that the central bank has for two years been erratic in its handling of the money supply: First too tight, now too easy. The assault won't succeed for two reasons. One is that the central bank is a creature of Congress, which will come to its defense. Also the Fed is increasingly seen as the stern teacher, preventing the politicians from doing what they would like to do but would be bad for the country. So, a real reversal of the Fed's expansionist monetary policy seems unlikely.

ALL THE REQUIREMENTS FOR A WEAK RECOVERY are now in place—including a Fed that won't surrender on inflation. Though slow, the recovery will have staying power. The Commerce Department's estimate that real GNP rose at a 0.6% annual rate in the second quarter is a harbinger of what will happen in the third. Once the third quarter of recovery begins, the federal deficit will become less of a problem. In every postwar cycle, deficits have fallen, not risen, during the early days of a recovery. But for now, there's not much good news on the budget. Congress will have real trouble agreeing on the cuts called for to hold the deficit to \$104 billion. Every tax proposal will be opposed by powerful business and consumer groups. When you can neither cut spending nor raise taxes you must learn to live with shocking deficits.

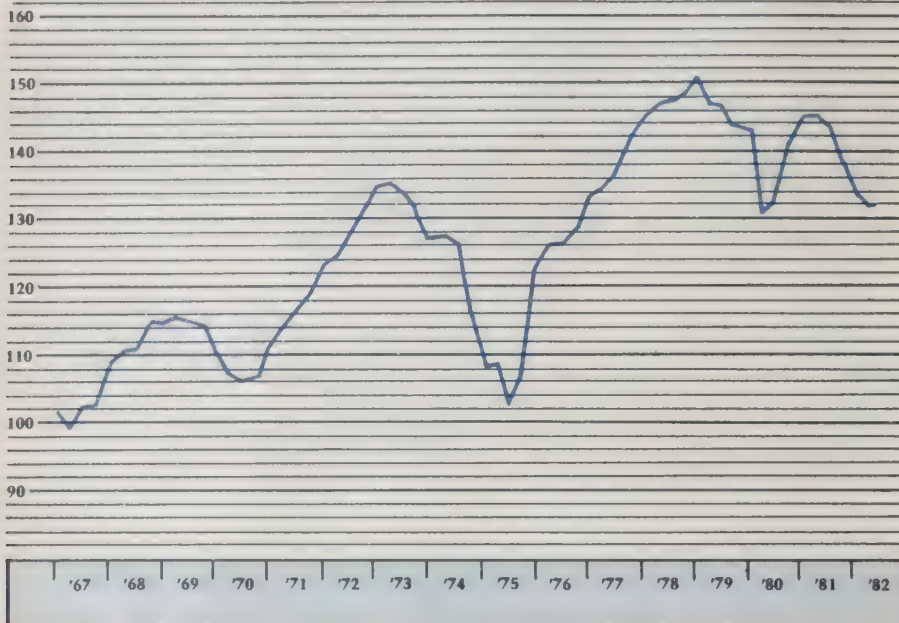
Corporations are borrowing not because business is good but because it is terrible

Inflation unmitigated by monetary expansion will slow consumer gains

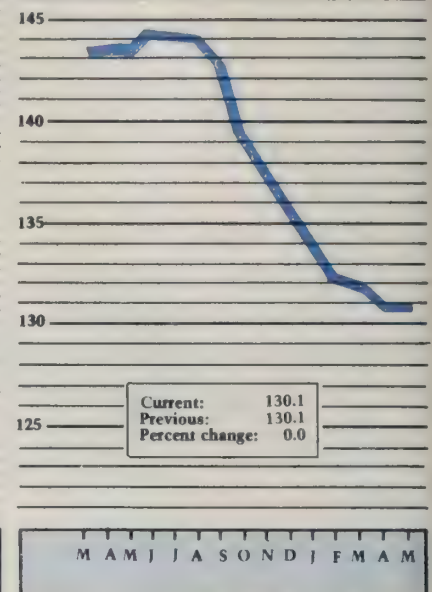
Why the federal deficit will look less threatening next year

The Forbes Index

Forbes Index



12-month close-up



Current: 130.1
Previous: 130.1
Percent change: 0.0

Slipping into neutral. The Forbes Index, ending its long skid, held its own during the most recent period. The good news is that personal income rose by 0.5%, while housing surged an unexpectedly high 18.1% in May.

Offsetting those upbeat reports, however, were the numbers concerning industrial production and inflation. In May, industrial production was off 0.2%. Meanwhile, the Consumer Price Index rose a full 1%. That compares

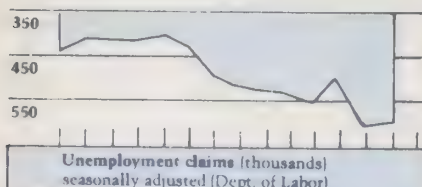
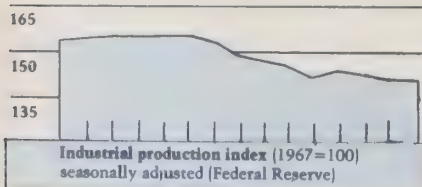
with a 0.4% increase in April.

The rise in inflation, tied mainly to rising food and gasoline prices, is only temporary. The big question now is: How much stimulus will be provided by the tax cuts and Social Security payout boosts scheduled to go into effect on July 1? If consumer spending does pick up significantly, as most economists expect, a sustainable but weak recovery will begin in the third quarter.

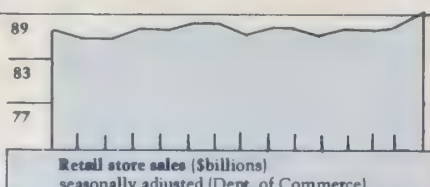
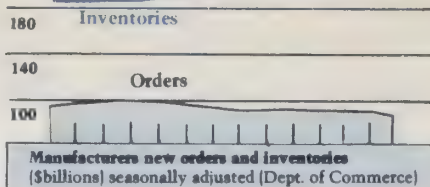
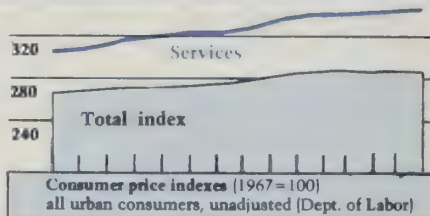
The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

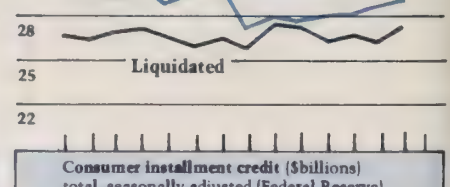
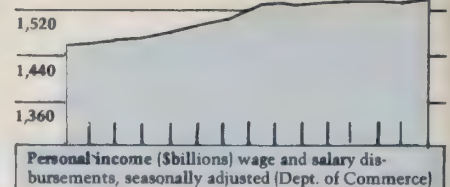
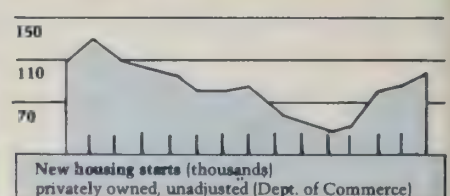
To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.



F M A M J J A S O N D J F M A M



M A M J J A S O N D J F M A M



M A M J J A S O N D J F M A M

Power Costs Less in Area

The average residential customer on the American Electric Power System in 1981 used more electricity but paid less for it, per kilowatthour, than the average consumer over the nation as a whole.

AEP Chairman W.S. White Jr., reported that residential customers on the seven-state AEP System paid an average of 4.75¢ per kwh for their electricity in 1981. The average for all customers of all U.S. electric utilities was 5.98¢ per kwh, 25.9 percent higher. (The latter figure is the latest available – for the 12 months ended September – from the Edison Electric Institute.)

White pointed out that the cost of household electricity today is virtually the same as it was 45 years

ago. In 1936, AEP System residential customers paid an average of 4.67¢ per kwh, which at that time was the lowest it had been since the company was founded 30 years before that. "Of course," White added, "if one considers the fact that the 1936 dollar was worth much more than the 1981 dollar; today's price is much less than it was four-and-a-half decades ago."

Average annual residential usage on the AEP System last year was 10,032 kwh, virtually the same as in 1980. In comparison, the U.S. average residential consumption by customers of all utilities was 8,816 kwh. (Again, the national figures are based on 12 months ended September.)

THE INTELLIGENCER
Wheeling, W. Va.
February 5, 1982

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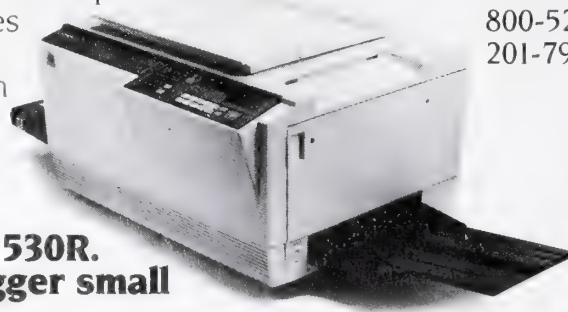
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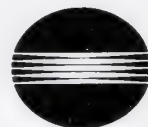
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MINOLTA

American business may be able to turn Compuscam to its advantage in forcing the Japanese to be more cooperative in opening their domestic market.

"The U.S. side of the street"

By Allan Dodds Frank

ROBERT STRAUSS, THE FORMER Special Trade Representative and Democratic National Chairman, sat in his well-appointed Washington office one recent afternoon and contemplated the indictments of Hitachi and Mitsubishi employees for trying to steal computer secrets from IBM. "If I really wanted to make mischief, you could pass some of the most regressive, some of the worst protectionist legislation in the world," said Strauss.

Strauss smiled wickedly when he said it. The interviewer got the point. Here was a stick to beat the Japanese with; a stick they themselves had handed people like him. Strauss now represents AT&T, the banking service industry and other U.S. clients attempting to break through restrictions that hobble them in the domestic Japanese market. With the computer data theft scandal, Strauss, a practical man, was thinking leverage, not vengeance. A perfect opportunity, he explained, to sit down with U.S. representatives of Japanese compa-

nies to make behind-the-scenes deals on trade reciprocity.

Strauss felt certain the Japan lobby would cooperate because at that very moment its highly paid servants—many of them big-name former U.S. office holders—were roaming Capitol Hill trying to separate their clients from the computer-bribe offenders and head off congressional investigations or, worse, the kind of legislation



Big bitters: Robert Strauss, William Colby, Charles Ferris, Frank Church
"For \$10,000 you can't even have lunch with me."

Strauss was dangling. "It just takes a spark and you could get it through the House and Senate," added Strauss, rehearsing his line of attack.

The Japan lobby knows this and is trying to repair the damage. This is no small thing. The lobby is powerful. Among those whose law firms receive fees and six-figure retainers from Japanese auto, fishing, electronics and trade interests are former Senators J. William Fulbright, Frank Church, Jo-

seph Tydings, John Tunney, former CIA Director William E. Colby, former Transportation Secretary Brock Adams, former Deputy Special Trade Representative Alan Wolff, former Reagan campaign manager John Sears and current Democratic National Chairman Charles Manatt. All, for a fee, put their political contacts to work for Japanese business.

Within the last five years, as Japanese trading with the U.S. has increased from \$10 billion to \$37 billion and Japanese annual direct investment here has risen from \$1.8 billion to more than \$6.5 billion, the so-called Japan Inc. lobby has quietly become the largest, best-funded foreign contingent in Washington. In 1977 only 17 foreign agents for Japan were registered with the Justice Department. Today there are more than 140.

Reliable statistics on money paid and money spent are hard to come by, but the *Detroit News* estimated that the Japan lobby received more than \$30 million in fees and may oversee expenditures of \$200 million annually.

So what do all these Americans do? Why do the Japanese need them?

Former CIA Director Colby, who collected more than \$14,000 in 1980

from the Center for Political Public Relations and declines to identify several other Japanese clients, makes it sound bland enough. "If you go on a safari in the American political system, you need a local guide," says Colby. The dispersion of power in

the U.S. is confusing to many foreigners, he explains. A client may need to be told that a meeting with a senator is not enough; it is important that the senator's staff (which will write the legislation) also understands your viewpoint. Referring to the Tongsun Park scandals of 1977-78, Colby says, "No American would ever have advised any Korean to hand out little envelopes filled with dollars."

Perhaps the oddest figure in the Ja-

pan lobby is former Senator Frank Church, who as head of the Senate Foreign Relations Committee denounced U.S. businessmen for foreign payoffs, chaired the investigation of Lockheed's business in Japan that toppled that country's government and also led the congressional probes that tore apart Colby's CIA. Church now is an agent for the Japan External Trade Organization and Daiwa Steel. Church's firm, Whitman & Ransom, brings in thousands annually for what the former senator describes as routine legal work—passports, visas, real estate transactions. But don't think for a minute that Frank Church runs down to the passport office. More likely, he's having lunch with Japanese clients. About what? "They want Reaganomics explained to them," says the onetime Idaho senator. He flashes his still-boyish smile, which once served liberal causes and now serves foreign business interests.

Clearly Church offers more than a

smile for those legal fees. A call from a former senator to a Senate secretary or a reluctant bureaucrat can make certain that the proper contacts are made. It is when a crisis occurs, such as the computer scandals, that such contacts come in handy. The ugly word is "influence peddling."

When Japanese auto manufacturers want to lobby Congress, they don't send Japanese nationals to Capitol Hill. Instead, they round up all the good ole Americans who have Toyota and Datsun dealerships and have them contact their congressmen.

When Sony Corp. was attacked for possible copyright violations arising from the use of Betamax videotape recorders, the U.S. subsidiary and a coalition of other Japanese electronics manufacturers knew where to turn. They called in a powerful team: former FCC Chairman Charles Ferris and superlobbyist lawyer Thomas Boggs, son of the late House Majority Whip Hale Boggs and Representative

Lindy Boggs (D-La.). Ferris and Motion Picture Association chief Jack Valenti squared off in hearings, with Valenti talking about the day Japan ate Hollywood. Ferris countered that 80% of Sony TVs sold in the U.S. are manufactured here, providing 6,000 jobs for Americans, and so on.

There's nothing wrong, under our system, with lobbying. There is more than a little hypocrisy, however. Politicians are quick to jump on military officers for going to work for defense contractors after leaving the Pentagon. But they seem to feel a similar practice is okay for themselves. At any rate, the Japanese have learned how to buy their way into the U.S. political system.

Countering that growing influence is one reason Bob Strauss is pulling down handsome fees, working, as he puts it, "the U.S. side of the street." How handsome? Quips Strauss: "For \$10,000 you can't even have lunch with me." ■

*There was a young man from the Tyne,
Put his head on the Northeastern line,
But he died of ennui, for the 5:53
Came no sooner than quarter past nine.*

—20th-century British lament

Winter of discontent?

By Lawrence Minard

TO ALL OUTWARD APPEARANCES, it was back to what Americans consider normal for the British economy: The Falkland Islands successfully retaken, the combative British trade unions were going out on strike against Prime Minister Margaret Thatcher's Conservative government policies.

And even though the rank and file of the National Union of Railwaymen voted to end their strike, and the London subway workers did likewise, the future promised labor strife. Another of the rail unions threatened walkout, nurses in the National Health Service were continuing a series of irritating one-day strikes, and contracts cover-

ing hundreds of thousands of workers in the state-owned coal mining, waterworks, steel and natural gas distribution industries expire next December and January. Widespread strikes in these public sectors could create for the Conservatives a winter of discontent reminiscent of those that forced Edward Heath from office in 1974 and hastened the downfall of Labour's moderate James Callaghan in 1979.

The issue, in other words, is political. "What we're seeing is a runup of trouble to a general election," says economist Tony Baron of London stockbrokers Savory, Milln. There is speculation that Thatcher will call an election next year.

Britain's vast public sector has fared surprisingly well under the Thatcher

regime. As she has reformed the country's laggard economy over the last three years, the job losses have been wrung mainly from the private sector or from nationalized manufacturing industries such as British Leyland or British Steel, which are vulnerable to competition. A relatively minor number of the 3 million unemployed have come from the public sector.

Thus, for example, British Rail's total work force has shrunk by 5% since 1977—to about 228,000—while British Steel's payroll has plummeted by over 50%, to less than 100,000. According to Britain's Central Statistical Office, the central government work force has actually *increased* slightly since Mrs. Thatcher's election, to around 2.4 million. That includes 67,000 new jobs at the National Health Service, whose unions claim the Conservatives are heartless where the infirm are concerned.

Britain's left-wing trade unionists are noisily promising to do what they can to maximize chaos in the economy and trouble for the government. The Conservatives' 1980 Employment Act, for example, outlaws secondary picketing and so provides private and public sector employers alike with legal ammunition to fight strikes. But the Coal Miners' recently elected Marxist president, Arthur Scargill, promises to ignore the law.

"During the last three weeks, members of my union have been acting illegally, contrary to the [1980 Employment Act] law, and if they accept my advice, they will continue to defy



London bus drivers on a one-day strike last March
Less an economic issue than a test of Margaret Thatcher.

the law," Scargill boasted to a trade union conference late last month. "By severe disobedience of this legislation we can render it totally ineffective."

But, whether Scargill is more in tune with his rank and file than the National Union of Railwaymen's leftist executive leadership was with its membership remains to be seen.

London University's renowned Marxist historian, Eric Hobsbawm,

doubts that a potent militancy is brewing within Britain's public sector unions. Hobsbawm—who stated forthrightly in his Marx Memorial Lecture in 1978 that "the forward march of labor and the labor movement, which Marx predicted, appears to have come to a halt . . . about 25 to 30 years ago"—makes a sharp distinction between fighting for general rights and grasping for individual

gain. The current wave of strikes, he says, "are sectional disputes, fought for their members' own particular interests, and not better service for the public. With the exception of the badly paid [around \$120 a week] health workers, for whom there is public sympathy, these disputes are isolating the disputers from the general public and from other unions whose support would be necessary for success."

Economist Tony Baron agrees: "I think the [public sector] workers are just playing into Thatcher's hands," he says. "The more they disrupt, the more they'll give the government reason to bash the unions."

So the historical and economic stage is set for Margaret Thatcher to fulfill her 1979 campaign promise to cut back on Britain's swollen public sector bureaucracy. Will she risk a 1982 winter of discontent?

Argentina's General Galtieri or the Irish Republican Army leaders who tested her with dying hunger strikers in 1981 could provide an answer to that question. "After the Falklands," says Baron, "there is a general perception in the government that if you stick to a correct policy through thick and thin, eventually everything will come right." Principle, in short, is a far better course than expediency—a useful lesson for leadership everywhere. ■

Smaller budgets and bigger military needs are working against the hopes of civilians who planned to use NASA's space shuttle.

Overloaded shuttle

By Howard Banks

COMPLETION OF THE fourth and final test flight in the Columbia space shuttle program, for all its technical and scientific dazzle, gives aspiring commercial users of the shuttle two good reasons to feel gloomy.

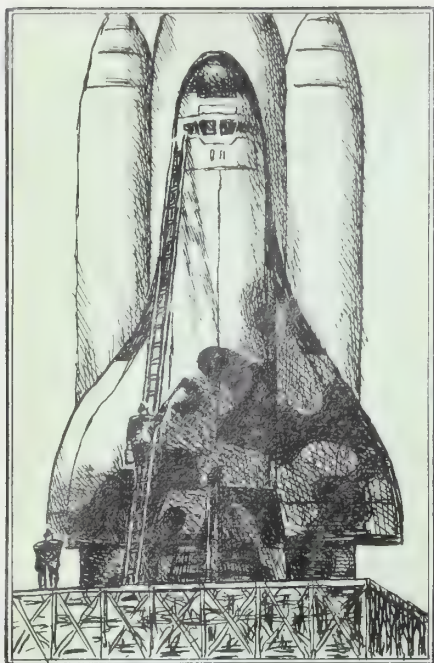
First, space in general and the shut-

tle program in particular are being hit hard by cutbacks in federal spending for "luxuries." To save money, the four shuttles that are to be built will now do no more than 300 flights by 1992, instead of the 500 or so that had earlier been planned. Spreading the costs of the shuttle over fewer launches will sharply increase the price commercial users pay. After ad-

justment for inflation, a full payload will cost around \$40 million by 1985, the end of subsidized low-cost launches. After that, commercial users can expect to pay \$90 million per launch.

The other pressure will come from the expected increased use of the shuttle by the military, in effect crowding out commercial users. Planners at the National Aeronautics & Space Administration had originally foreseen a three-way, roughly equal market for shuttle service among the military, commercial users and NASA itself. But the Russians are reported to have tested their own reusable spacecraft. Though it is smaller and less versatile than the shuttle, it's part of the evidence of growing Soviet potential in the military use of space. In response to such developments, the U.S. Air Force has just set up a space command. Such events will likely tilt the balance of available space on the shuttle away from commercial users in favor of higher-priority missions for the U.S. military at just \$12 million per launch.

No surprise, then—and a portent—that the fourth test flight of the shut-



tle carried its first (supposedly secret) military payload: an infrared sensor to look for missiles "over the horizon" and a navigation device based on star-gazing and therefore free of earth-made interference.

Commercial demand to send up satellites, meanwhile, is expected by the mid-1980s to be double the shuttle's reduced capacity. One beneficiary will be the French-led Ariane, a conventional, expendable rocket. A switch to Ariane has already begun, and the French have a new, larger Ariane forthcoming. Its launch prices will perhaps be around \$25 million to \$30 million a satellite, roughly 20% to 25% less than the prices per satellite quoted by NASA after the 1986 increase. Another possible beneficiary of the spillover could be the Japanese, according to a group working on high-technology industries at the White House as part of the Cabinet Council on Commerce & Trade.

Price is a key factor, but not the only factor, of course, in users' calculations. More important still is reliability. Thus, even if not bumped by a military payload, will commercial users be able to depend on NASA's ability as manager to keep promises? Talk of "privatizing" the commercial side of the shuttle service is stronger than ever. The turnaround between missions three and four in Columbia's test program went smoothly enough. And NASA is confident that it will be able to cope when four shuttles are being used simultaneously. But others are not so sure. The Cabinet Council working group likes the idea of "privatizing" commercial launches. The final draft of its paper on U.S.

competitiveness in high technology says: "If the private sector were allowed to develop, market and launch satellites, pricing would be more flexible and in response to the demands of the marketplace, rather than constrained by the federal budget." Boeing is a candidate to take over operating the shuttle, but it, like all other aerospace companies, is reluctant until more is known about the shuttle's costs.

Already gathering on the launch pad are several private groups. One of them, Space Services, Inc., plans to use expendable launchers (see p. 91). Another is Space Transportation Co., Princeton-based and headed by soft-spoken Klaus Heiss (FORBES, Apr. 12). It wants to take over and finance building shuttle number five (dropped for budget reasons) for commercial users and eventually to market all commercial loads to be carried on the other four. It is not a joke, and is now seriously negotiating with NASA. No less than the Prudential Insurance Co. has agreed to take up to a 40% equity stake in the company, whose capitalization has not been settled. This is a long way from also agreeing to raise 40% of the \$1 billion or so building shuttle number five would take. But if NASA (i.e.,

the federal government) agrees, then other institutions can be expected to get out their checkbooks, too.

Of all the plausible customers in view, commercial users of space for telecommunications satellites are obviously hardest hit by the present uncertainties. They have to design their satellites, for example, so that they are small enough to go up on conventional rockets, just in case. This means they are missing the technical advantage of the shuttle, which can handle larger, more capable communications technology.

Right now that is of little consequence, since there are spare transponders and lots of wasted capacity, notably by cable TV operators. But already there are forecasts of a potential shortage of parking spots far enough apart for communications satellites not to interfere with one another. (A separate program to shorten the wavelengths used, and so ease the congestion, also fell victim to tight budgets.)

The losers will be all those of us who use telephone "lines" and who dreamed of the coming information revolution that depends on them. It will be a little late and the lines will probably be busy. ■

Remember Anthony DeAngelis' missing salad oil? Black Watch Farms' nonexistent cows? Equity Funding's phony policies? Saxon Industries may be a repeat.

Now you see 'em, now you don't

By Richard L. Stern
and Paul Bornstein

IN EARLY JANUARY two middle managers at Saxon Industries' Florida business copier division were discussing whether the company would survive the year. "We will," said one, "if Stan Lurie can pull another rabbit out of the hat for the bankers."

The implication of sleight of hand was on target. A consortium of over 20 banks, led by New York's Chemi-

cal Bank, had lent Saxon some \$140 million. They and the rest of Saxon's legions of creditors were unaware that the inventory system under Stanley Lurie, Saxon Industries' president, was neither LIFO nor FIFO but Presto!

In a previous article ("Over the brink without a blink," May 24), FORBES estimated that the \$120 million in inventory on the books at Saxon's copier division had been overstated. Writedowns, FORBES estimated, might hit \$100 million. We were

too kind. Two outside liquidators reportedly now estimate true value at \$5 million to \$10 million. Moreover, subsequent discoveries by Saxon's outside auditors and confessions by top executives reveal that outright fiction—parts, supplies and copiers that don't exist—may account for \$50 million of the inventory entries. The rest? Instead of writing down obsolete equipment, Saxon marked it up.

The fraudulent inventories and phony fixed assets were part of a massive companywide scheme to create nonexistent profits. A longtime employee says the practice dates back to the early 1970s. But it appears to have picked up steam in the last several years as troubles grew in Saxon's copier division. Soaring interest rates on a growing debt finally pyramided the scheme and the company into bankruptcy proceedings.

Like a snowball rolling downhill, the Saxon story has been picking up mass and momentum almost daily. On June 29, after Lurie was told some Saxon employees had spilled the beans, the board announced Lurie's resignation. He had been Saxon's treasurer for many years before he became president in 1977. The employees who reportedly confessed include Arthur Monteil, chief financial officer of the copier division, James L. Healy, manager of copier data processing, and members of the New York corporate staff. Behind closed doors, *FORBES* has learned, they told of falsifying corporate records and said they had done so on Lurie's orders. Monteil, who has weighed more than 300 pounds, said he had been eating himself to death because of all the guilt and worry. The board announced it was turning its information over to the SEC.

In one of the last press interviews Lurie gave (*FORBES*, Oct. 12, 1981), he said, "We have projects under way that will increase our earnings and decrease our debts." He was to report profits for the first nine months of 1981 of \$3 million—down from \$5 million for the same period of 1980, but not bad when you consider Saxon's main businesses, copiers and paper, were in recession. Investors and creditors were reassured.

Relief soon turned to panic. Six months later Saxon announced that it was expecting a 1981 pretax operating loss of

\$47 million. All that damage in the fourth quarter? Not possible. The banks refused Lurie's demand for more credit. On Apr. 15 Saxon filed for protection under the bankruptcy laws. The value placed on its assets, \$503 million, was phony. The debt of \$461 million was real.

The company is not yet talking publicly, but employees at the copier division have privately described how Saxon manipulated inventory valuations with two inventory counts. The first was an honest count, to tell exactly what shape the business was in. The second was to inflate inventories in accordance with profit goals arbitrarily set in New York.

The warehouse at Opa-locka, Fla., for instance, is loaded with unsalable Scott and Dennison wet copier parts that were never written down. Their true value? Scrap. Also on the books at inflated values are parts to build 5,000 Saxon SX 20 copiers. Never mind that Saxon stopped building copiers a year ago and has been pushing Panasonic machines.

In Boston, at Saxon Paper, there were phony inventories, too. Officials received orders in 1981 to put \$532,000 in paper on the books at its Burlington, Vt.

warehouse. "If you jammed it to the rafters," says a source, "you'd be able to fit in about \$200,000."

Some Saxon executives who got wise and wouldn't go along were sidelined or fired. Others who had outlived their usefulness but knew too much often were kept on payrolls as consultants. Still others were kept in the dark, denied access to a room at the copier plant known as "the cage," where sensitive records were locked. Employees report massive shredding of paper there and at headquarters in New York as it became more difficult to hide the truth.

Saxon kept more than one set of books. Sources at Saxon divisions say their true revenues and earnings frequently bore no relationship to what headquarters reported in consolidated statements. Local records for the first nine months of 1981 at the copier division, for example, show a loss of \$8 million. Copiers in 1980 accounted for half the company's profit. How, then, given the copier division's own records, could Saxon report a companywide profit of \$3 million in the first nine months of 1981? "No way," says a source.

There's more. To avoid paying Massachusetts state income tax, officials in New York submitted journal entries in 1974 to decrease reported income there by listing phony inventory purchases as intracompany payables—fictional credits, fictional debits. In that way, profits were removed from Massachusetts. A memo from Alfred Horowitz, Saxon Industries' vice president of finance, on Oct. 7, 1977 ordered officials of the paper division to reverse the procedure, transferring certain intercompany accounts payable back to corporate headquarters.

Officials of even the smallest divisions were used to accepting book entry orders from New York. Reality be damned. Saxon Paper Corp. of Vermont listed \$91,000 in losses for the first 11 months of 1980. Then—Presto! Change-o!—Vermont showed a \$26,000 profit for the full year.

Saxon apparently hasn't made a real profit in years. It sold its buildings and leased them back to raise cash. The banks thought they were providing working capital. In truth, they were lending Saxon capital to survive. In the highly competitive copier indus-



Ex-Chairman Stanley Lurie of Saxon Industries
Not LIFO or FIFO but Presto!

Out-Foxed

Only yesterday, Denver-based Fox & Co., the nation's 12th-largest accounting firm, was eagerly seeking publicity. To celebrate a new international affiliation, for example, it held a swell luncheon for the New York press in a private dining room at "21," a definite indication of seriousness in any PR endeavor. Now Fox is getting the kind of publicity a firm doesn't want, and its once-cooperative partners aren't returning phone calls.

As Saxon Industries' longtime auditor, Fox has been named as defendant in numerous lawsuits, charging that it participated, along with the company, in a fraudulent coverup of Saxon's true financial condition. Now, adding woe upon woe, it comes out that Fox also was the auditor for Flight Transportation, the Minnesota-based charter company charged by the SEC with falsifying its financial reports.

Employees at Saxon told FORBES that Fox' audits were less than complete. Sources also note that it was only after Saxon's financial problems threatened to become public knowledge that Fox sent in a new team of auditors who are only now uncovering what Fox should have found a long time ago.—R.L.S.

try, Saxon devoted virtually nothing to R&D. A major copier model, the SX 20, was a joke, employees say.

The cast of characters is the stuff of drama. Stan Lurie is known as a man of enormous ego. An accountant by training, he worked 7 days a week, 12 hours a day. He also lived well. Headquartered in New York, he flew almost weekly to Florida, where he maintains an expensive apartment, occasionally renting a Learjet to commute. He entertained visiting bankers in high style at the Doral and other watering holes. It seems clear that Lurie, a master of bookkeeping, used all his skills in hiding the truth. Perhaps he was trying to buy time, hoping things would turn. Perhaps he was simply putting his head in the sand.

At any rate, a good deal of suspicion attaches to Saxon's business in the sale and leaseback of copiers, a major source of revenues over the last few years. Booked as revenues, these deals added to the phony rosy glow of finan-

cial well-being at Saxon.

It's a complex, tangled web. A good many of Saxon's customers rent their machines rather than buy them. To be able to book these rentals as sales, Saxon would involve a third party who would buy the machines from Saxon—usually with bank loans—then contract Saxon to manage them. Saxon, in turn, rented them to users.

This is what appears to have happened. Desperate to book revenues, Saxon rented some of its machines to users at bargain rates that failed to cover the costs of servicing the bank loans. There is more: One of the third-party intermediaries was owned by relatives of Walter Feldesman, a Saxon director and its attorney.

Lurie was removed as president after Saxon filed bankruptcy papers. But he held the title of chairman, at some \$300,000 a year plus a car and chauffeur, for another eight weeks over the strong objection of only two directors, Hal Kroeger Jr. and Malcolm Mac-

Naughton Jr. William Scharffenberger succeeded Lurie as president, but Lurie held the affection, or at least the loyalty, of many directors until the end. After all, many directors earned more than directors' fees from Saxon (FORBES, May 24).

Lurie's relationship to Saxon's auditor, Fox & Co., goes way back, too. He originally was with Westheimer, Fine, Berger & Co., which later merged into Fox. Fox now seems determined to expose all. But in the past? Fox is a subject of numerous shareholder lawsuits. The charges: fraudulently concealing Saxon's true condition. Employees describe its past audits as "a joke."

Perhaps even more disturbing than all that has happened at Saxon is the fact that it happened at all. The system of trading stocks of public companies in this country is considered the world's best. But the system works on faith—faith in directors and, most of all, in independent auditors. ■

In the soaring Seventies, pension funds poured \$10 billion into open-end real estate accounts. With today's soft market, how much can they get out?

A cold appraisal

By Pamela Sherriid

UNTIL RECENTLY, real estate offered pension funds quick diversification and a chance to ride a roaring boom market. Because the average money manager knew little about bricks and mortar, however, most of the \$15 billion investment went into pooled open-end funds set up by major insurance companies in the mid-Seventies. These commingled accounts, with names like John Hancock's ERA and Aetna's RESA, bought properties directly and showed returns that were impossible to ignore. Prudential's \$4 billion Property Investment Separate Account (PRISA), for example, earned 27.4% in 1979, 23.3% in 1980, and even man-

aged a respectable 16.2% last year.

Now, however, the real estate market has finally—and inevitably—softened. The flow of new pension fund money into real estate has slowed abruptly, and considerable concern is developing between some pension executives and the eager middlemen who ushered them into real estate. The cause for concern is simple: There is a good chance that many of the big pooled funds are worth much less than their stated asset values.

Consider how the funds calculate their annual appreciation. Total return has two components: The first is investment income, for the most part rents. No problem there, that's good old cash on the barrel head. But then the fun starts. The second part of total

return reflects portfolio appreciation. Roughly translated, that amounts to what someone thinks properties are worth. When real estate values were soaring, unrealized appreciation is what made the fund's performance so spectacular—sometimes accounting for more than twice cash income.

Nice numbers. But who determines the "real" value of Chicago shopping centers, Houston office buildings and San Diego warehouses? Appraisers, of course—even though any real estate professional will tell you that you never know what something is worth until you sell it. Still, with the big insurance companies geared up to handle billion-dollar pension fund investments, someone had to provide credible valuation numbers.

Appraisers are a bit like accountants, but with a lower profile. There are a handful of national firms such as Landauer Associates, Inc. and Joseph J. Blake & Associates, Inc., along with thousands of local practitioners. Some do nothing but appraisal; others offer this as a sideline to brokerage, leasing or consulting.

Everyone, however, agrees that appraisal is an art, not a science. A 20% difference between two appraisers wouldn't raise an eyebrow. Right now, for example, the Reichmanns, those superlandlords from Toronto, are suing in Manhattan in a particularly messy valuation dispute. Their appraisers say that land they rent is worth \$324 per square foot while the appraiser for the owner of the land says it's worth \$850 per square foot.

Those wildly different price tags resulted because the appraisers used differing approaches to valuing the same piece of land. Sometimes the experts discount future cash flows. Sometimes they compare what similar properties are selling for. Even the sophisticated "income approach" is nothing but projections—about rents, expenses and discount rates. What's more, appraisers can base their assumptions only on what has happened in the past. "As a rule, they lag the market by 12 to 18 months," says Tom Connolly, a Boston pension investment consultant.

Then there's the question of conflict of interest. Pooled real estate funds typically pay a flat fee for annual portfolio evaluations, but some, such as Equitable's \$2 billion separate Account No. 8, rely on in-house experts. An open-end real estate fund, however, is under constant pressure to keep appraised values high. That means it receives higher management fees. And the higher reported returns, the more new money the fund at-



Prudential's Donald Knab

"If we couldn't hit an appraisal, that wouldn't stop us from selling."

tracts. "A 'sensitive' appraiser perceives what is required of him—particularly if he wants to do the job again next year," says Julien Studley. "I've been told in confidence by a major appraiser that if a big fund complains about a specific appraisal, it often gets changed," adds Ken Grossman, a consultant at A.S. Hansen.

The big question today has more to do with the overall decline in real estate values. Are the pooled funds' asset prices pumped up too high? "I really don't know the answer," says Grossman, "and that's the problem." Another real estate expert is more certain—and less sanguine: "Given the fall in the market, the portfolios of the open-end funds cannot be liquidated at current appraised values."

At its worst, an overvalued open-end fund poses a staggering "run-on-the-bank" disaster for some shareholders. Those pension funds that redeem their shares first get the full current appraised value. The funds that wait, however, run the risk of cashing out at tomorrow's presumably lower asset values, less the premium paid to early sellers.

No one, of course, expects the open-end funds to dump their properties on the market. That would send real estate prices tumbling. "These funds own their portfolios free of debt," says Blake Eagle, a respected pension consultant at Frank Russell Co. "Who is better positioned to ride this current market cycle?" One very important factor lending stability to the open-

end funds, in fact, is that they are not required to sell properties in a hurry in order to accommodate withdrawal requests.

But the current plight of PRISA illustrates the squeeze. This year 19 of PRISA's 400 pension clients have asked to withdraw a total of \$155 million. That's the largest redemption request in the fund's 11-year history, but PRISA has not been able to pay off yet because it simply doesn't have the cash. When everything was still looking rosy, the fund made firm commitments to buy \$700 million in new real estate. "It really teaches you a lesson in liquidity," says Neta Lederer, pension manager at Foremost-McKesson. She asked for her \$16 million in May and is still waiting for a check.

At the moment, PRISA is raising cash on an unprecedented scale—even though it has no legal obligation to do so. In the last few weeks, for example, the fund has agreed to sell six properties for \$70 million—22% above appraised value. "There is no evidence that the appraisal process is not being validated in the marketplace," says Donald Knab, a Prudential senior vice president.

Skeptics still aren't convinced—perhaps with good reason. PRISA's portfolio is so huge that it would be relatively easy to take big gains and sit on losses. "Just because we couldn't hit an appraisal, that wouldn't stop us from selling something we should," argues Knab. "You believe that or you

don't, but it's the truth."

One thing is sure: The industry will be keeping a keen eye for the next six months on the asset values of the properties that *remain* in the portfolios of the open-end funds. "If we don't see any declines, then the skeptics will become even more dubious," says John Weisz, president of Jones Lang Wootton Realty Advisors.

This presents the funds with a painful marketing dilemma that can only worsen their cash flow difficulties. In effect, if investors assume that asset values will soon be revalued downward, there is an incentive to cash out

now while share prices are still artificially high. "It's like trying to sell a stock that's sure to go down," says one pension consultant.

Despite the current unpleasantness and their own imperfections, of course, open-end funds are not going to disappear. The allure of real estate and its ability to absorb vast amounts of cash is simply too great. In the short run, however, expect a switch to more conservative closed-end funds. Typically, they buy a package of properties with a fixed pool of money and agree to sell out after ten years. No problem with appraised values and

iffy annual returns.

This much is certain: After the current troubles, open-end real estate funds will never again seem to be the fail-safe investments that they appeared to be in the mid-Seventies. "Appraisal is the best thing short of a buyer and seller, but it's just not good enough," says the sponsor of one closed-end fund. Foremost-McKesson's Nita Lederman puts it almost wistfully. "Two years ago we pension managers used to laugh about not wanting to be the last one out of PRISA. I'm not sure anyone is laughing anymore." ■

In good times, any old song and dance will sell stock. But when times are hard, you may have to sing a different tune.

Du-op! Du-op!

By Richard Greene

YOU WOULDN'T HAVE THOUGHT the time was right for ailing Trans World Corp. to bring a stock offering to market. Yet that's just what TWC—parent of TWA, Hilton and Canteen—did a few weeks ago. In spite of a shaky market and a first quarter that showed a \$103 million loss, it sold out quickly at a handsome premium.

How was that possible? Because TWC came out with a new type of equity instrument, invented by a young second vice president at Smith Barney named Eric Singer. Singer calls the instrument the du-op—like the mesmerizing refrain from a 1950s cut by the Platters. Singer says du-op stands for dual option warrants.

They're a little tricky, but there will probably be a lot more of them coming out in the next few months, particularly from companies like TWC that "would have to put a lot of cherries and cream on anything it was selling," as one trader put it.

Here's how they work: TWC sold units of one share of common stock

and one warrant for a total price of \$25.50. There was nothing unusual about the warrant; it enabled buyers to purchase one share of common stock for \$25.50 at any time through Jan. 15, 1987. The stock is currently selling for around \$20 a share.

Nothing exciting so far. But the second half of the dual option is more

interesting. From May 16, 1983 through June 29, 1984, you can trade one warrant plus one share of common stock for one share of TWC preferred paying 14%.

That should give the stock price a floor. Let's say that TWC's stock plummets to 10. Clearly a traditional warrant is almost worthless. But since the preferred price will be kept relatively stable by the 14% interest payments, you can trade in your common and your warrant for a share of preferred and bail out with a far smaller loss than you would have taken on the common.

On the other hand, if the stock goes through the roof, you can sell the warrant at a nice profit.

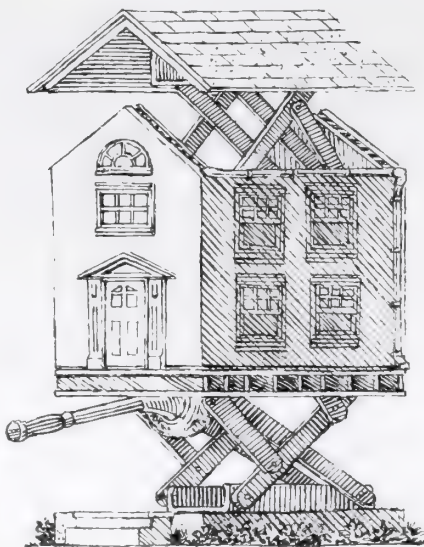
So, you have a higher floor and a higher ceiling.

What if the stock just sits there for several years? Then you may lose: The warrant has been useless and you would have been better off buying shares of common. That's the price you pay for security on the low end and a gamble on the high.

Of course, should interest rates skyrocket, the preferred, which is supposed to provide security, would lose some value. And, like as not, so would the common and hence the warrant. But then, there's no such thing as a guaranteed winner.

Even for TWC. If the stock plummets, the company will suddenly find itself with a lot of high-yielding preferred on its hands. But that possibility doesn't seem to worry TWC. "So, we wind up with a 14% preferred—that's not so bad either," says Robert Peiser, TWC's vice president and treasurer.

As for Eric Singer, the inventor of the thing, he's riding high. Smith Barney had lost the TWC investment banking account to Merrill Lynch and E.F. Hutton several years ago. Now it has a foot in the door again. That's the kind of thing that makes second vice presidents into first vice presidents. ■



30% of the products Brazil exports leave by way of this jungle.



Think of Brazil and perhaps you conjure up images of a vast illimitable jungle... A land that's primitive, exotic, mysterious. Journey to Brazil and what you'll really find is a modern, progressive nation... A country boasting a magnificent megalopolis like São Paulo with its 12.5 million inhabitants.

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Norfolk and Western and to make

On May 10, 1869, the East and the West were linked by the joining together of two railroads. On June 1, 1982, two railroads joined together for what we think is just as monumental an undertaking: a major rearrangement of the rail distribution system of much

of the Eastern United States.

It was formed by two great railroads, Norfolk and Western and Southern, joined forces to create Norfolk Southern Corporation.

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Robert B. Claytor
Chairman and Chief Executive Officer
Norfolk Southern Corporation



Southern get together little history.

South much easier. For example, Norfolk Southern will open five new corridors in the area to facilitate the movement of goods between North and South and East and West. In addition, the unified rail network will blanket many key industrial areas of the country. Norfolk Southern starts off in life with many

advantages. Not only will it control two of the most efficient railroads in the country, it has set its sights on becoming the nation's foremost transportation company.

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*International Gold Bullion Exchange—
a company that can make gold float.*

The Will Rogers method

By Jeff Blyskal

IT'S IMPOSSIBLE!" That's an exasperated New York gold trader trying to answer a simple question: How can The International Gold Bullion Exchange retail gold and silver coins to the public so cheaply, often at spot market prices, pay for an expensive advertising cam-

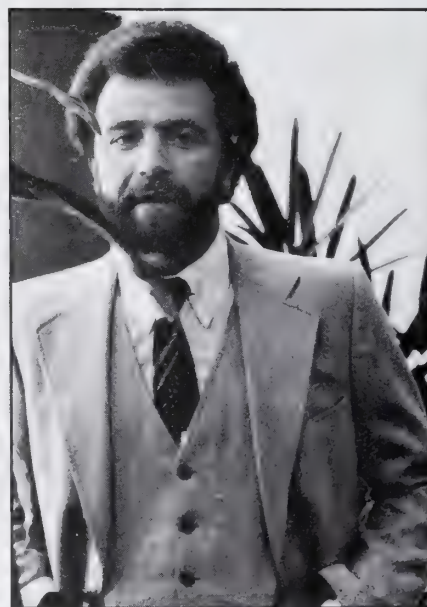
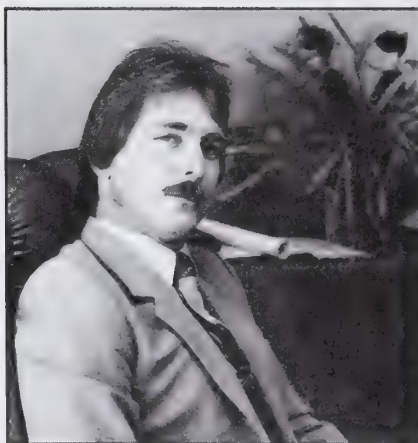
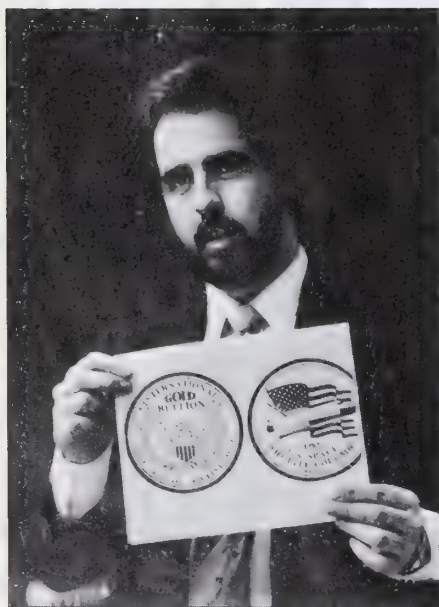
Michael Zambouros, 29, then a newly minted "interdisciplinary social science" graduate of the State University of New York. All were in Ft. Lauderdale for the beach scene. All were virtually broke. When they met at the low-budget Fair Winds Motel, they say, it was destiny.

After just three years in operation, Alderdice claims, privately owned IGBE is an \$80 million-a-year company—so profitable it has been channeling earnings (he won't specify the amount) into everything from a car-leasing business to the brokering of yachts and jets and the development

plaints of late delivery of purchased gold (so far, all subsequently dropped). The FBI says it has an investigation under way, but has not produced one allegation thus far.

There seems little doubt that lots of money has passed through IGBE for lots of gold. The company's offices in Ft. Lauderdale, Dallas and Los Angeles are extravagantly appointed in plush, modern decor. Top executives not uncommonly lease a Learjet at \$13,000 per coast-to-coast jaunt. The Alderdices and Zambouros own \$1.5 million worth of new homes in Ft. Lauderdale alone—plus condos in Dallas and Los Angeles.

Whence the obvious profits? Even at wholesale, there is a 3% premium over the spot bullion price for gold coins like the Krugerrand and Canadian Maple Leaf, and up to a 30% premium over spot on silver ingots. How can IGBE make profits selling gold and silver for less than it must pay for them? A partial explanation is that it adds service charges: a \$15 or more "shipping and handling" fee per sale, as well as a \$20-per-ounce sales commission. So, where's the real saving to the buyer? In avoiding local sales



Bill Alderdice (with plans for IGBE's own gold coin), Jim Alderdice and Mike Zambouros
"If you find out how they do it, let me know."

paign and still earn a profit?

"We're 27 years in the business, 15 in gold, and I'm puzzled," says Luis Vigdor of New York's respected Manfra Tordella & Brookes. So is Republic Bank's chief gold trader, Fred Bogart, who says, "If you find out how they do it, let me know."

Florida-based IGBE was hatched five years ago by William Alderdice, 39, a former wig-salon owner from Pittsburgh; his brother James, 25; and

of Florida, Texas and California real estate. It expects to open offices in New York, Tokyo and London, plans to launch its own gold coin, and may start a commodity futures brokerage.

Does all this sound too good to be true for a business in which margins are normally thinner than a Krugerrand? A lot of people wonder, but there is no evidence of wrongdoing. The Miami postal inspector, for example, is keeping an eye on com-

taxes, for one thing. A buyer in New York-City saves 8.25%—about \$50 on an order for two Krugerrands, for example. However, IGBE is not the only outfit to sell precious metals by mail in this manner.

The ultimate secret of IGBE's success seems to lie in something else: in its offer to waive the commission for customers willing to put off delivery for 90 days. "What are you going to do with the coin once you get it, any-

way?" one of IGBE's salesmen asked a FORBES reporter posing as a potential investor. "You're going to put it away someplace for years and years, right?" Accept the delay, then, and you get your precious metal at less than wholesale, and save local sales taxes to boot.

How many customers go for the 90-day offer? It depends on whom you ask. About 15% to 25%, says Alderdice; about 75% to 80%, says Chief Financial Officer Zambouros.

Pay now, take delivery later. The customer seemingly has little to lose but the vendor has plenty to gain. Interest rates are running as high as 20%, and IGBE has the use of a good deal of customer money for 90 days. An order for, say, \$3,000 could earn IGBE \$150 or more.

There is yet another potential source of profit for IGBE in delayed-delivery sales. The company admits that it often does not cover itself on such sales until the time for delivery is at hand. In other words, it is frequently selling short—promising to deliver gold and silver coins it does not yet own. In a falling market—such as has prevailed since 1980—this practice can be highly profitable.

What does IGBE do with your money in the time that elapses between your purchase and delivery to you? Alderdice says 90% or more of the customers' delayed-delivery money goes into CDs, with 10% used to hedge in a bull market against rises in the price of gold. And he says IGBE will play metals prices both long and short. Explains Alderdice: "Say you want to buy \$1,000 worth of gold. What if gold goes up before I deliver in 90 days? If I triple-hedge it and buy \$3,000 worth of gold on Comex, and gold goes up a hundred bucks, I got the [extra] hundred I need to buy your gold and I got \$200 profit on \$1,000 worth of gold.

"You can hedge short, too," he goes on. "For every ounce of gold I sell, I'll invest up to five times that amount. We sell a couple thousand ounces of gold and 100,000 ounces of silver every week. If you double- or triple-hedge that in an up [or down] market, you'll make so much money you can't count it."

That's fine if Alderdice calls the shots right. However, one doesn't have to be a financial expert to see the pitfalls in all this if IGBE should start guessing wrong. "Triple-hedging" can result in triple losses, too.

There are contradictions. Alderdice told FORBES the FBI investigation "has been completed." The FBI says it is

still open. Alderdice says part of his expenses are offset by cooperative advertising with the marketers of the Canadian Maple Leaf and Mexican gold coins. The Royal Canadian Mint and several of its distributors deny any such arrangement, and George Esser, director of The Gold Coins of Mexico, says that his organization ran only a short cooperative advertising test with IGBE last year. Alderdice claims IGBE revenues were near \$80 million last year but Zambouros in a separate interview put the figure at \$54 million.

In other ways, however, Zambouros is as flamboyant and expansive as his associate. "We plan on being one of the biggest corporations on the planet," he says. "We always like to be leveraged to the fullest extent, and whatever we do, it's always first class all the way."

To hear Alderdice tell it, it's all so simple. Sell short when the price of gold is falling, buy long when it's rising. It reminds you of Will Rogers' advice: "Buy some stocks and wait for them to go up and then sell them. If they don't go up, don't buy them." ■

International Paper's Edwin Gee knows that in a commodity business you spend big to get your costs low.

A giant shapes up

By Kathleen K. Wiegner

WHILE OTHER FOREST products companies struggle to find one more notch in their already tight belts, International Paper Co. is in the midst of a \$6 billion capital spending program that will extend to 1985. So large is IP's modernization program that Chairman Edwin Gee thinks it may be "unprecedented for this industry." His aim: to turn \$5 billion (revenues) IP, the world's largest papermaker, into one of the lowest-cost producers of white paper and the packaging materials, containerboard and bleached board.

There's no doubt that long-stagnant IP needed to be overhauled. Between 1975 and 1980, generally good years for the paper business, IP's operating profits remained essentially flat. Return on equity declined from 15% to around 8% last year. In the early 1970s analysts touted IP as a company sure to earn \$10 a share. IP finally achieved that last year—but half the earnings came from sale of assets. In an industry in which top management remains in place almost as long as the trees grow, IP has had four

chairmen in ten years, each one trying to pump earnings out of the company's vast assets.

Then, in 1978, Gee was brought in from Du Pont, where he was a senior vice president with a doctorate in chemical engineering and 30 years in the business. The chemical industry with its huge plants, commodity products and process technology, is a lot like the paper business. Gee saw IP's biggest problem immediately. Many of the company's 16 pulp and paper mills, which had been built in the 1920s and 1930s when energy and labor were cheap, had become high-cost producers of a price-sensitive commodity. Labor and energy costs were not the only problems. Because capital was expensive, previous management had skimped on bricks and mortar, so incompatible products were often manufactured in the same mills. This meant expensive machine switchovers. What money could have been spent in the 1960s to update and rationalize the plant had been chewed up in a diversification program that failed miserably.

"I saw our first step here was to try to become the low-cost producer,"



International Paper's Chairman Edwin Gee

Pouring in the money—\$675 million capital spending this year—to make things hotter for competitors in the future.

says the 62-year-old Gee, "and it was clear we couldn't do it with our existing cash flow." Gee began selling big chunks of IP's assets and reinvesting the cash so that the remaining assets might show a decent rate of return. (At 4.2% IP's return on assets is the lowest among major papermakers.) He first sold off General Crude Oil Co., an oil and gas company his predecessor had acquired in 1975. He used the \$763 million from the sale to go out and buy Bodcaw Co., a private company with a modern container-board mill in Louisiana. Last year Gee sold IP's entire Canadian operations for around \$900 million. In three years he has raised around \$2 billion from asset sales, including other land, timber and subsidiaries that went on the block.

He has put some of the money into a new \$600 million mill at Mansfield,

La., and into an estimated \$500 million remodeling now under way at Georgetown, S.C. When he came in, only two of the company's six major packaging mills were close to efficiency. Gee sold one, shut the other down and replaced their capacity with Mansfield and Bodcaw's Pineville mill. With Georgetown, he decided to rebuild rather than start from scratch or acquire, thereby salvaging \$400 million worth of still-usable equipment. "As for shutting down more mills, we study this all the time in a disinflationary, low-growth economy," he says.

Gee has increased research spending at IP, including attention to improvements in papermaking processes. He also recalls his bemusement at finding an almost complete lack of research in the paper business directed at developing proprietary products. "The chemi-

cal industry spends 3% of sales on R&D, while this industry spends less than 1%," says Gee. "It's clear we should do more."

He has also cut labor costs by striking a hard bargain with IP's unions in 1979, which reduced the IP labor force by 20%. He plans to spend around \$400 million on energy-saving programs by installing new boilers, using alternatives to high-priced oil such as coal or lignite.

Progress to date: hidden. With four years on the job, Gee has little to show in IP earnings—which are expected to be down this year. Blame the recession, partly: IP's reduced labor and energy costs will yield better margins when the economy and paper prices improve. But, also, paper is a long-term business; it takes several years for a new mill to break into the black. Mansfield has been operating a year and Georgetown will not be finished until 1985. After that, "IP could see a 12% to 14% return on those investments," says Oppenheimer & Co. analyst Gary Palmero.

Forest products security analysts, having endured a decade of IP chief executives from unrelated fields who spoke of diversification strategies or "scenarios for aggressive, dynamic planning," like Gee's down-to-the-plant approach. "Gee addressed the question of mill maintenance," says analyst Bowen Smith of Salomon Brothers. "He brought in a senior person from Union Camp, which does a good job at that, and put him in charge of manufacturing."

So even though IP sells at 54% of book in a disastrous time for forest products, analysts and institutions appear hopeful about IP when the economy turns around. They are holding the stock at more than 8 times last year's \$4.69-a-share earnings from operations, and more than 10 times anticipated earnings for 1982 of around \$3 a share.

If the recession endures much longer, papermaking could go through a wrenching shakeout. Some small, private producers are already dropping out and there is concern over the survivability of some of the larger companies, too. But there is no concern over IP, with a balance sheet featuring \$809 million in long-term debt offset by \$3.2 billion in equity, to say nothing of \$970 million cash in hand.

Gee keeps pouring in the money—\$675 million capital spending this year—to make things hotter for competitors in the future. With luck, the big company will not merely survive but prevail, further proof that management does make a difference. ■

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EVERYTHING'S GETTING SMALLER BUT PERFORMANCE

Unbroken earnings gains at SCM have never impressed Wall Street. This year's profit collapse helps explain why.

Back space

By Eamonn Fingleton

PAUL ELICKER ISN'T usually bashful when it comes to talking about his company, but the chairman of \$1.9 billion (sales) SCM Corp. definitely didn't want to talk about fiscal 1981 as he closed the books on it at the end of June. With SCM's perennially meager profits about to be chopped roughly in half on a sales decline of just 3.5%, you can't really blame him.

Only last spring Elicker persuaded his board to buy out all of the SCM holdings of a dissident group headed by Willard Rockwell, who had been campaigning to have SCM broken up. The \$30 a share Rockwell got was close to a decade-long high and certainly better than the recent \$22. Shareholders cannot be blamed for wishing in hindsight that Rockwell had engineered a tender offer for SCM. Whatever happened to those higher earnings in 1982 that Elicker had predicted a few months later in SCM's 1981 annual report?

In part, the recession was worse and lasted longer than most businessmen expected. This certainly hurt SCM's Proctor-Silex irons and coffeemakers as well as Glidden paints and chemicals. In its core business of typewriters, where SCM once boasted a market share of about 50% in portables, the company has been under brutal attack from imports—especially the Japanese Brother brand—in a declining market. But also, SCM bungled its attempt to make a comeback in office



SCM Chairman Paul Elicker
At a loss for words.

typewriters. Its new Typetronic typewriter has encountered one problem after another. Continued production problems mean that in the current year losses in the typewriter group will probably double to \$20 million as a result.

Meanwhile, Elicker has been stopping the bleeding as best he can with plant closures: a typewriter factory in Scotland, two paint plants in Chicago

and an edible-oil refinery in Louisville. The resulting writeoffs clipped \$7 million off earnings in the first nine months of fiscal 1982.

Few Wall Streeters were surprised. SCM has had a credibility problem since the 1960s after it caught the conglomerate bug. Its grab bag included troubled copier and calculator businesses—which were later closed or sold—and profits crashed in 1971. Wall Street has been skeptical about Elicker's record of unbroken growth since he took office in 1972. For example, last year's reported earnings would have been down, not up, had it not been for a steep drop in SCM's effective tax rate, from 40% to 29%, almost the lowest in a decade, resulting from a particularly fortuitous co-

incidence of big investment tax credits from the building of new plants and carryforwards from prior years. Then there was another \$4 million from reduced pension costs thanks to windfall stock gains and to more favorable actuarial assumptions. Then SCM voluntarily redeemed probably \$9 million of low-interest debt prematurely, perhaps producing a windfall gain of at least \$2 million because the bonds were bought in at a huge discount to par. Then there was the capitalization of \$4.9 million of interest on assets under construction—up from \$2.4 million the year before. While that is standard accounting practice, it's an item most analysts would deduct in calculating real earnings.

But perhaps the most telling indication of how hard Elicker has strained to support SCM earnings is that most of the company's inventories are still carried on a first-in-first-out basis, long after most smart companies have switched to LIFO, to avoid exaggerating reported earnings. Staying on FIFO could have added another \$3 million to \$4 million to SCM profits in 1981, adding unnecessarily to its tax bills and cutting its cash flow. Belatedly, SCM will now switch to LIFO.

And the future? Per-share earnings of \$5.50, an 80% gain over 1982's depressed \$3 a share, wouldn't surprise The Street, assuming there are no further surprise writeoffs. Trouble is, even that represents only a feeble 9% return on equity. ■



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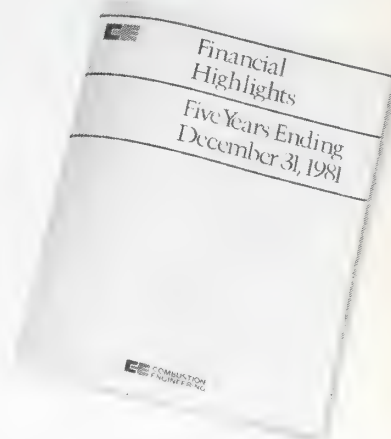
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There's hope for the heartland when a company as big and as old as Brown Group can do so well making shoes.

Buster Brown lives

By William Harris

IF THE AUTO INDUSTRY wants to see what may be in store for it, Detroit could well take a look at the shoe industry, which has been ravaged by foreign imports for the last 15 years. In 1981 half the 750 million pairs of leather shoes sold in the U.S. were made overseas. Over 300 U.S. shoe plants have been closed in the past 12 years.

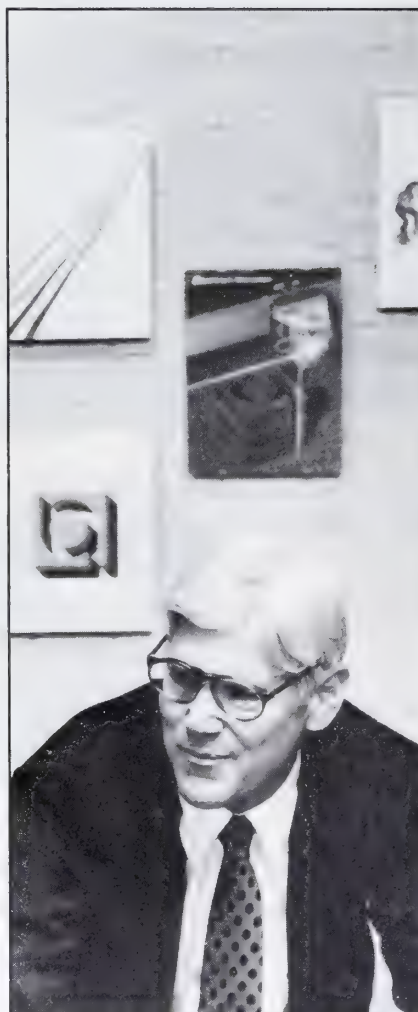
It might be even more instructive, though, to take a look at St. Louis' 104-year-old Brown Group, the people who have brought you Buster Brown shoes since 1904. Brown still gets two-thirds of its \$1.3 billion (sales) from shoes—women's are now its biggest seller—and still makes most of them in the U.S. A real Middle American dinosaur, right? Wrong.

Last year Brown earned a record \$55 million, up 23% from 1980, and return on equity was 17%. In this year's recessionary first half, it managed to squeeze out a 6% earnings gain on basically flat sales.

What has Brown been up to? Nothing spectacular, says B.A. Bridgewater, 48, the towering, white-haired midwesterner who has run Brown since 1979. Just watching every penny and running each operation as efficiently as possible. "You can scratch out gains in very tough times by keeping a close eye on inventories and receivables," says Bridgewater dryly.

But there's more to it than that. Since taking over, Bridgewater has invested over \$20 million in computer systems that help design and manufacture shoes. That's more than any other domestic shoe company has spent on automation. The result? Brown has nine fewer plants than it did in 1975, but it makes as many shoes now as it did then—about 26

million pairs this year—even though Bridgewater has cut the workweek to four days in some plants. (Brown's labor costs are near their 1976 level.) He also expects to reduce corporate expenses by \$18 million this year, cutting back on everything from pen-



*Brown Group President Bridgewater
Scratching out gains.*

cils to executive travel. Finally, in these days of high interest rates, Bridgewater finances his inventory out of cash flow. Brown has no short-term debt.

All this has made Brown the low-cost producer of medium-price women's shoes, an immense niche relatively immune to assaults by cheap Asian imports at the low end and high-fashion European imports at the top.

"There's great strength in being the market leader, even in a mature industry," says Bridgewater, impatiently drumming his fingers on the conference room table. He might have said *especially* in a mature industry. "As the industry shakes out, as it tends to do when money is tight, the market available to the leader grows at a very attractive rate. Take the beer business—also mature. But it's a good business if you're Budweiser."

If that sounds familiar, it should. Bridgewater's philosophy comes straight out of McKinsey & Co., the consulting firm he joined just out of Harvard Business School in 1964. He spent two years in Nixon's Office of Management & Budget, where he set fiscal priorities for the Defense Department, the CIA and the State Department, and did a stint as Baxter Travenol's executive vice president before moving to Brown (which had been his first client at McKinsey).

Still, there's work to be done in the company's nonshoe businesses, which provided 27% of its \$109 million operating profit last year. It's a lumpy group: Cloth World, a chain of Sunbelt fabric stores; BottomHalf, a specialty apparel chain; boating instruments; and play-yard equipment.

That calls for some marketing strength, and Bridgewater is moving to supply it. Time was when Brown was a fairly frisky marketer. Back in 1904, for example, the company hired 20 midgets to travel around the country impersonating Buster Brown, all accompanied by small dogs named Tige. A fabulous promotion, it helped the company sell thousands of pairs of shoes. Now, to develop a character identification for Brown's playground equipment and baby strollers, Brown has obtained the highly successful Strawberry Shortcake character from American Greetings.

Any more diversification on the horizon? Bridgewater doesn't rule out further acquisitions, but clearly the nonshoe business won't overshadow Brown's basic business while he is around. He's proving there's life left in the shoe business. As well as hope in the heartland. ■

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The curious Greif Brothers Corp. doesn't fit the usual patterns of American business. Neither does its wide profit margin.

Homely virtues

Greif Chairman John Dempsey, at the company-owned estate where he lives
"He is very, very conservative. Who's to say that's wrong?"



By William Baldwin

INSIDE THE DILAPIDATED Cleveland plant of Greif Brothers, once the world's largest barrelmaker, the craft of cooperage survives—barely. Seven men use a trusser, a windlass, a wire hooper and other antique machinery to "raise" wooden kegs.

A buggy-whip maker in its final days? Not quite. Greif Brothers is as solidly in the industrial packaging business as it was when it opened that three-story brick building as its headquarters 105 years ago. Greif, which has since moved its head office downstate, to Delaware, Ohio, netted \$25.2 million on its fiscal 1981 revenues of \$307 million. It did that battling competitors like Continental Group, International Paper and Mobil, each

with sales that dwarf Greif's, but with profit margins that fall far behind.

Unlike those giants, Greif depends on bulk packaging for over 90% of its sales. That hasn't changed since four Greif brothers started supplying barrels to Cleveland's booming 19th-century industries, although steel, paper and plastic have replaced wood in 99% of Greif's production.

As recently as 1946 Greif had 71 mills making staves, 17 others making heads and about 110 assembling them into kegs and barrels. That was when John Dempsey, a young accountant whose family owned a minority block of Greif shares, wrested control from a wealthy investor named John Raible. Raible had taken over from the Greif brothers in 1913 but had enough other interests to make coo-

perage only a sideline. Dempsey, 68, and chief executive for the past 35 years, explains why he acted: "Mr. Raible kept calling Greif Brothers 'my wood company.'"

Such an attitude would ultimately have killed the firm, as it did hundreds of smaller cooperage shops across the country. Worse, Raible was trying to buy out shares held by Dempsey's wife and mother-in-law at \$10 each. Dempsey responded by hunting down shareholders and buying stock himself, just enough to get over 50% of the voting class. It was a good investment: Nonvoting Greif shares pay a 46-cent annual dividend and trade on the Midwest Exchange at around \$14, after splits totaling 160-to-1 under Dempsey. Even that price hardly reflects what Greif stock would be worth to an acquirer who could get control. Dempsey has no intention of selling—or retiring—but his family's holdings are probably worth better than \$200 million.

The change didn't come overnight. As late as 1947 Dempsey was adding to Greif's timberlands in a vain search for cheaper staves that would make kegs competitive with the new fiber drums rolling out of Continental. Meanwhile he took mechanics off keg machine repairs and had them trying to design a fiber drum machine. They managed to wind kraft around a mandrel but couldn't get it off. They forgot to make the mandrel collapsible.

Dempsey, by then desperate, bought out an inventor who had developed a drum winder. He also bought steel drum machinery, corrugators for cardboard boxes, molding machines for plastic containers, and "tubers" to make kraft into industrial bags. Conspicuously absent among Greif's 88 plants is any paper mill, which would have put some of Greif's 317,000 acres of timber to use and given it raw material for its fiber drum, bag and box lines. Why? Dempsey was fearful of what a big mill would do to his balance sheet. He went no further than buying \$12.9 million in preferred stock of Virginia Fibre Corp., a seven-year-old, 600-ton-a-day mill that sends less than a tenth of its output to Greif. Little Greif, then, has always had to buy supplies from forest-products giants it competes with. But Greif has something they don't: only \$4.5 million in debt to \$157 million in equity, and that's with several hundred million dollars' worth of idle land carried on the books at \$2 million. "The things you decide not to do are just as important as the things you decide to do," says the soft-spoken Dempsey.

For someone who struggled to modernize his company, Jack Dempsey may seem rather old-fashioned. He doesn't talk about discounted cash flow or redeployment of assets but about loyalty and humility. Greif's annual report runs every year with a picture of Warner Sallman's painting "Head of Christ" on the back cover.

Like Dempsey, who learned accounting through a correspondence course, many of Greif's 30 executives never finished college, but 9 of them are over age 70. One purchasing agent has been with the company for 56 years, a secretary for 60. Dempsey says he can't remember ever firing anyone. He politely introduces visitors to everyone they walk by at headquarters, including the janitor.

The customers, at least 20 of whom have been buying from Greif for half a century, seem to appreciate the style. "With such longevity, they knew as much about our business as we did," remembers a former package buyer for Diamond Shamrock, adding: "They were men of their word."

And behind Dempsey's soft-nosed facade is a clever strategist who has made a virtue of smallness. Greif learned early that you can't make money shipping kegs full of air around the country. In the U.S. fiber drum market, where Greif runs a close second to Continental, Greif plants are twice as numerous and on average half as big as Continental's. Over the past three years Greif has averaged an operating margin after depreciation of 11.8% on its packaging business. That compares with 6.6% at Continental's forest-products division.

Continental, like International Paper and Mobil's Container Corp. of America, has its own paper mills. Might Greif have done worse if it had one? It's impossible to say, but look at \$54 million (sales) Virginia Fibre Corp., run by Greif board member and longtime Dempsey associate Robert Macauley. Macauley, 58, boasts of a priest and a minister on his board of directors and weekly prayer meetings in the mill. Virginia Fibre's operating margin after depreciation last year was 15.4%, double the industry average. When its debt is paid down, Greif will likely convert the preferred to an 81% common-equity interest.

Nothing in the Bible says that the meek shall inherit market share. But nothing in the annals of commerce says that fancy business school theories will win out over old-fashioned virtues like constancy and fair dealing. "He is very, very conservative," says Macauley of his friend. "Who's to say that's wrong?" ■



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The worse things get in Detroit, the better they get for little Cooper Tire & Rubber.

Stormy petrel

By John A. Byrne

WE'RE JUST A SMALL COMPANY in an industry that isn't highly regarded," says Edward E. Brewer, 57, chairman of \$394 million (sales) Cooper Tire & Rubber.

"There is nothing unique about Cooper Tire," echoes Ivan W. Gorr, Cooper's executive vice president.

No? Then how come Cooper Tire turned in a 28.5% return on equity last year—more than three times the industry average and twice that of its most profitable competitor, Armstrong Rubber? If Cooper were just another tire company it would be closing plants, laying off its workers and reporting sharp downturns. Instead, the "other" company in Findlay, Ohio, the home of Marathon Oil, is alone among its major competitors in reporting both higher sales and earnings in the first quarter.

So far this has gone unnoticed on Wall Street, where Cooper shares trade at a mere 4 times earnings. And it's not hard to see why. Until 1980 the company's earnings regularly went up and down with economic cycles and management mistakes, ranging from lax inventory control to overproduction. Cooper fell into the red in 1974, worked itself up to a record \$9.5 million net in 1976, only to falter for the next three years to a low \$5.2 million in earnings in 1979.

But then Cooper came into its own. First there was the severe auto slump. Cooper benefits from Detroit's discomfort because it produces tires exclusively for the replacement market. When consumers stopped buying new cars, keeping their old ones on the road longer (an average 7 years, up from

5.5 years in 1970), they had to replace their tires more often. Cooper was there to pick up the business.

Then came the recession—more bad news to help Cooper. Consumers began trading down to the company's less expensive Cooper and Falls brands of tires and its private-label brands rather than pay premiums for more heavily advertised tires. Many bought ordinary bias-ply tires, refusing to pay an average of 90% more for radials, which last longer. Again, Cooper gained because the bulk of its production is bias-ply tires.

While major competitors plunged headfirst into the radial market in the 1970s, Cooper held back. Cooper says that was on purpose, not just because

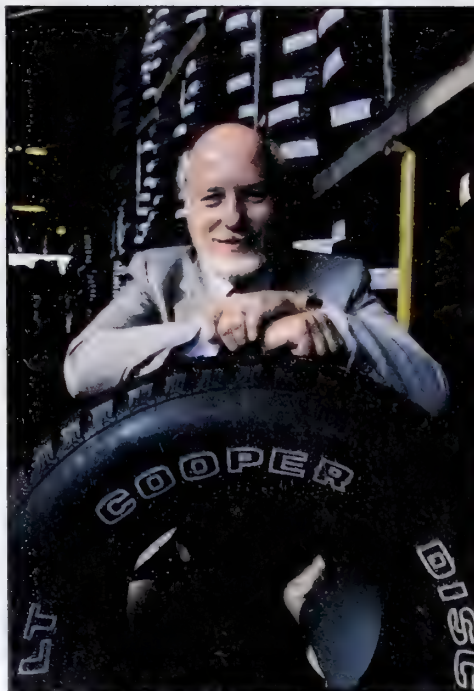
it could scarcely afford the steep cost of converting to radials. "We lagged the market by design because not all of our customers wanted radials," says Brewer. "Most of the big tire makers favor radial over bias and it has hurt them to some degree." Today, roughly 40% of Cooper's output is in radials, compared with the replacement-market average of 61%.

Cooper has been equally fortunate with its distribution system. Unlike Goodyear, Firestone or B.F. Goodrich, which have their own retail stores, Cooper sells its tires through 2,500 independent dealers and distributors, who have been grabbing market share from company-owned outlets, chain stores and full-service gas stations, which have been declining in number. Attracting customers by offering car repairs and selling auto products, independents have increased their share of the replacement market to 65%, up from only 35% in 1965. These stores welcome Cooper product because they earn higher markups on it and don't have to compete with any Cooper-owned outlets.

Cooper can afford to sell its tires for less because the company spends less than 1% of sales on advertising (half what its competitors spend) and enjoys unusually good labor relations. Cooper employees, who are not covered under a United Rubber Workers' master contract, are often paid by piecework, which keeps productivity high. Each Cooper passenger tire bears not only the company's name but also the name of the worker who produced it. Result: Plants are running close to capacity, versus an industry average of around 75%. And Cooper's \$54.7 million inventory has dropped by 7% as a percent of sales.

"Our competitors tend to think in market shares," says Brewer, sporting a neatly trimmed mustache and beard. "We think in terms of how we can effectively utilize assets." Lately, that has meant narrowing Cooper's line of tires to concentrate on volume sellers, so there are fewer stops in the production line—another edge over the competition.

And what happens when Detroit stages a comeback? Brewer admits that would slow the growth of his tire business, but he says Cooper's now-ailing industrial rubber products division, which supplies auto parts to Detroit and normally accounts for 20% of sales, will pick up the slack. Meanwhile, what's bad for General Motors is good for Cooper Tire. ■



Chairman Brewer of Cooper Tire
Rolling through the recession.



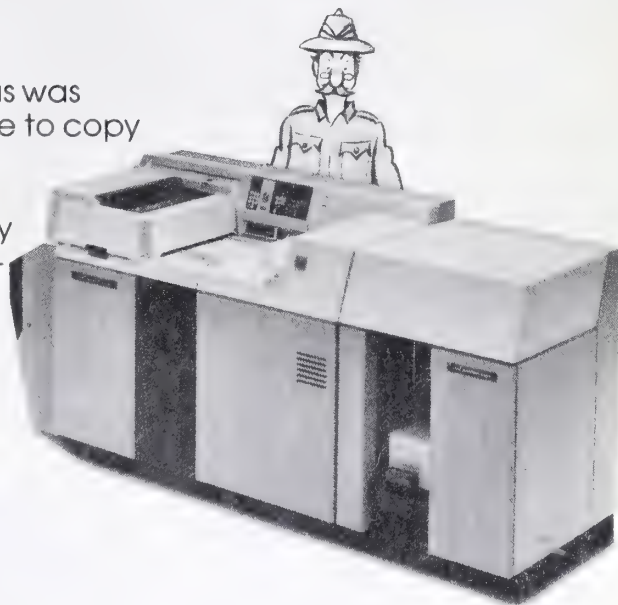
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Sow in bad times, reap in good times, says Milton Porter, who is expanding in a glut. But will history repeat?

Fond memory

By Lisa Gross

YOU HAVE HEARD the old saw about those who forget the past being condemned to repeat it. But what about those who remember the past too well? Chairman Milton Porter, 71, of Pittsburgh's \$532 million (sales) L.B. Foster Co., is adding capacity in oil drilling casing when the market is glutted.

The U.S. drill rig count, weather vane of oil country tubular goods sales, is down 36% from its alltime high last December. Where drillers were last year buying up tubular goods as prices rose more than 40%, they are now working off inventories, and prices have slumped some 20%. Foster's existing pipe-finishing plants are working at less than 70% of capacity, and the only earnings Foster made from the business in the first quarter of this year came from the sale of a plant.

But Porter, a stubborn man who married into the Foster family 44 years ago, remembers. "These things get cleaned up," he says. "We had the same thing happen in 1976. We had a great 1974 and 1975, then in 1976 there was an inventory glut. We came out of that market bigger than ever."

Isn't it taking a big risk, doubling capacity in two years, to 300,000 tons in 1983, and hoping for a boom? Porter remembers: "If we hadn't thought in 1969 that there would be a heavy increase in oil and gas drilling in the U.S., we wouldn't have grown in the oil country tubular business. You plan your activities so you have a chance at a break."

Say this for Porter, he's got a win-

ning streak going. Foster, an 80-year-old company that started as a rail recycler, has doubled revenues in the last five years. It increased earnings, from \$8.4 million in 1978 to \$21 million last year, by selling casing and tubing to oilfield independents through some 20 oil supply houses.

Porter himself has turned an ap-



Foster's Porter (left) and Kearns with inventory
"These things get cleaned up."

proximate \$250,000 personal investment in 1977 into \$2.6 million in Foster stock, down from the \$5.5 million it was worth when the company went public a year ago at \$17. It was in 1977 that he led management into a leveraged buyout, which turned the company loose from the ownership of three aging Foster brothers in time to avoid the estate taxes that Porter was certain would wipe out the company. He saw good times coming for oil country tubular goods—then 13.6%

of sales—and was disinclined to let either the IRS or an acquiring company profit from his efforts.

His timing was excellent. The drilling business was poised for a historic takeoff in 1977. Within five years the average weekly rig count rose 98%, its highest-ever point. Foster, which finishes casing and tubing (cuts the precise threading into each casing) and manufactures couplings for casing and tubing, took advantage of the boom in cash flow to pay down the debt associated with the leveraged buyout. Today the company's \$160 million capitalization is 54% equity, 46% debt. Porter's timing in going public last year wasn't bad either, catching the last of Wall Street's enthusiasm for oil-related stocks.

But for now, the boom has faded. And Foster is sitting with inventory costs of around \$6 million, up at least 50% from last year, a company dependent for about 32% of total operating profit and 28% of sales on this soft market. Gruntal & Co. analyst Jan Loeb expects 1982 earnings to fall to \$1.40 a share (40 cents of that from sale of the plant), from \$2.32 last year.

What, other than continue oil products expansion, does Porter do now? He falls back on Foster's original business—picking up old railroad track and grading the rails for sale to other railroads. The rail business brings Foster 18% of sales, 12% of operating profits. Foster invested \$13.5 million last year in acquiring, for re-leasing to short-line railroads, 234 miles of Erie Lackawanna rail.

The company, says Porter's heir apparent, President Warren Kearns, 52, plans to invest an additional \$30 million in the rail business in the next five years. Kearns, a rail business specialist, expects that division to turn in profits of 15% to 20%.

"The rail business' steady earnings are going to counter the cycles of oil country tubular goods," says Kearns, the owner of 151,197 Foster shares. "It is a defense for us—absolutely." They sound so positive, these owner-managers of the reborn company. The market may lack Milton Porter's belief that you have to prime your business to get the breaks—it was quoting Foster recently at 8 bid, off more than 50% from its high. But who knows, with continuing instability in the Middle East, Porter's sense of timing could be golden yet again. ■



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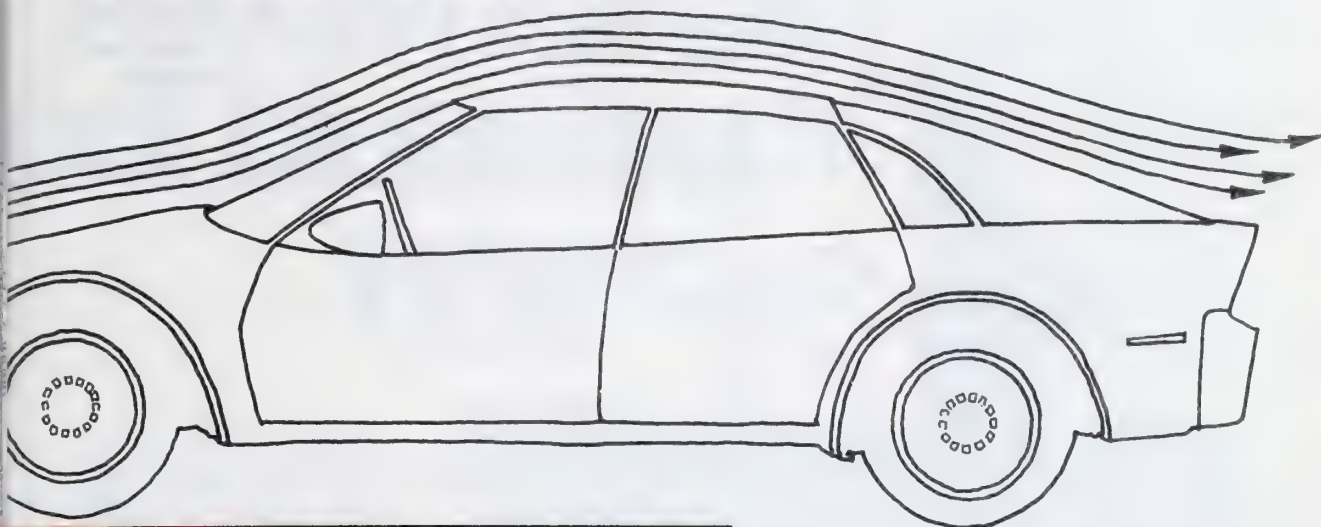
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A black and white photograph of a man in a trench coat and glasses, holding a newspaper and looking down at it. He is standing outdoors, with a building and other people visible in the background.

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The International Airline Passengers Association wants to be your consumer advocate. It also has a nice little insurance business going on the side.

Let the flier beware

By Anne Bagamery

SOMETIME THIS YEAR you may be one of the more than 2 million business travelers invited by mail to join the International Airline Passengers Association. And such a deal: For \$40 a year you get travel-type benefits, like hotel and rental-car discounts, and you get the satisfaction of supporting the self-proclaimed champion of the frequent flier.

The IAPA would like you to remember it as the organization whose kicking and screaming before Congress three years ago helped ground the DC-10 temporarily. Since that time IAPA officials have had plenty to say to the national press on subjects from the Air Florida crash in Washington to the Braniff bankruptcy. For all that, IAPA is not simply a selfless watchdog.

The group was chartered in 1960 as the Airways Club of New York with the goal of becoming "comparable to the large and powerful American Automobile Association," according to the founding charter. Through the Sixties ownership bounced among three insurance companies until it was purchased in 1971 by James Dunne, who was selling insurance for the MacArthur Group in Chicago. Dunne then used money from his family's Louisville printing business in order to expand and promote the association's services to business travelers.

Though dwarfed by AAA's 22.5 million members and 178 clubs, IAPA today claims 110,000 members worldwide and branch offices in Washington, London, Hong Kong and Panama City, in addition to its Dallas headquarters. From those members—who represent less than 1% of the air-trav-



IAPA's David Stamey at airport kiosk
So what's so unique?

eling public—IAPA would, at \$40 a head, be taking in \$4.4 million in membership fees. That money pays 100 employees to negotiate the discounts, deal with the airlines and send out the literature, including 2.4 million pieces of direct-mail advertising this year alone.

Well and good. What nobody says up front, though, is that IAPA takes in another \$5.6 million a year—over half its gross revenues of \$10 million—from travel insurance premiums. This travel coverage is similar to what American Express and Diners Club offer their cardholders. It consists of accidental death benefits (mostly from plane crashes, although boat and bus trips—when IAPA members take them, which is rarely—are also cov-

ered), plus a minimal hospital benefit plan. Underwritten by Lloyd's of London, the insurance goes for between \$45 and \$540 a year extra, and pays survivors up to \$1.5 million should the plane go down. The coverage is optional, but 70% of IAPA's members elect it.

A typical member buys \$200,000 worth of death benefits, plus medical coverage, and pays \$90 for that. What's it worth? The chance of dying in a plane crash is one in a million, so with the 40 trips the average IAPA member takes in a year, this death coverage is worth 40 times \$200,000 divided by a million, or \$8. That amounts to a payout ratio of 9%, not including the negligible hospital benefit—about the same return as American Express.

Mention any of this to an IAPA official, though, and reactions range from bafflement to indignation. "Payout ratio? What's that? Nobody has ever asked me that before," says David Stamey, 41, a former marketing and scheduling man for Braniff who is IAPA's main spokesman in the U.S. "You can't place a value on something that emotional," says Chairman Dunne, 52. "I myself carry \$2.5 million because I want my wife and seven beautiful children cared for if I go."

Okay, so you don't have to buy the flight insurance. What about, as Stamey puts it, the "unique package of benefits" you get for your \$40 a year? They're hardly unique. Baggage tracing? Any airline will do that, and will deliver the lost bags to your door with abject apologies. Bargain tips? A travel agent can tell you the cheapest way to get to Cleveland. Rental car and hotel discounts? The IAPA's intercession will get you the corporate rate, and with all the supersaver deals around you can often do better. Luggage tags? Come on.

IAPA officials profess, however, that they're not on a gravy train. "If you want to get rich, this is not the business," says Dunne, who sold IAPA in 1979 to the Travel Aviation Insurance Consortium of Tortola, B.V.I., for what he describes as a modest profit after years of losses. But somebody's making money. Last year IAPA claims it paid Lloyd's \$4 million to underwrite risks that would seem to be worth a lot less than that. IAPA, for its part, kept \$1.6 million for opening the mail, bringing its net revenues to \$6 million. What this seems to be is a very clever marketing device and a nice source of premium cash rolled into one. ■

With the coming of the cable industry, few myths of American business have been as oversold as the demise of the TV networks. And the network whose obituary is the most premature is ABC.

Staying tuned to tomorrow



EVERYONE KNOWS that the days are numbered for the big TV networks. Cable TV and independent stations are slowly but surely stealing their audience. Last season the three networks' combined average prime-time share of market fell to a new low of 83%. And cable is still in its infancy. So much crepe has been hung on the networks lately that, by comparison, the airline industry's future looks downright rosy.

But the conventional wisdom exaggerates. While there is no question network television is in the midst of a major transition that will change the industry profoundly, there are three things a network can and must do to cope with the cable challenge. It must:

- Run a broadcast operation appealing enough to keep as large an audience as possible.
- Adjust its economics so that whatever diminution occurs in its broadcast audience, its profitability can be maintained.
- Invest in new technologies only to the extent warranted by reasonably expected returns.

One network gives promise of being successful at all three. That network belongs to \$2.5 billion (sales) American Broadcasting Cos., Inc. Prime-time ratings notwithstanding (ABC came out four-tenths of a ratings point below CBS by the end of last season), ABC currently has the strongest program lineup in more different

"day parts" on more days of the week. The demographics of ABC's audience still have the greatest appeal to advertisers. In addition, ABC, perhaps because of its past mistakes, seems best to have learned the lesson that a network can no longer count on yearly inflationary increases of 20% in advertisers' budgets. It has responded with sweeping cost-cutting measures that seem well designed to cope with declining revenue growth.

More important, ABC's strategy for coping with the cable challenge looks shrewder and more imaginative than the competition's.

Not for ABC videodiscs, wiring cities or grandiose movie-making ventures. When ABC moves, it moves cautiously and usually with someone else sharing the risks. It has teamed up with Getty to provide programming for its sports channel, with Westinghouse Broadcasting & Cable for two 24-hour news channels and with The Hearst Corp. for two ventures to develop cultural and women's service and information programming. That way ABC contributes its strengths as a programmer while keeping development investments low and operating costs under tighter control. ABC has also shown imagination in new ventures like the recently announced Home View Network, a potential rival for cable that requires only a fraction of the capital that cable requires.

Shed of some bungled and ill-fitting diversification, ABC remains the industry's purest broadcasting play,

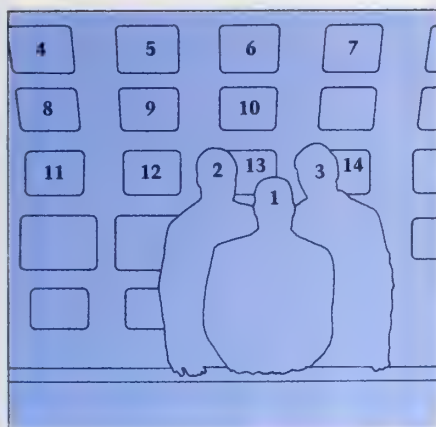
with over 85% of revenues coming from broadcasting, including the radio and TV networks and five owned-and-operated TV stations.

If there is any concern about over-concentration at ABC headquarters, you would never have known it from what went on at ABC's affiliates' meeting in May. To promote solidarity with its 208 stations' owners and managers—its distributors—the network spends about \$1.5 million on these three-day extravaganzas held at Los Angeles' luxurious Century Plaza Hotel. While the affiliates dine on fillet mignon and fine vintages, they get to rub elbows with Bette Davis, Robert Mitchum and the Fonz, and ABC makes sure that plenty of Polaroid pictures are taken of its station managers with the stars so they can show their friends back home in Tyler, Tex. or El Centro, Calif. Then the fall lineup is introduced in a multimedia spectacular.

Meanwhile, ABC's longest-running series—its cast of top executives—keeps working the crowd. There's handsome, tan, affable Elton Rule, 65, the image of a corporate president if you could order one up from central casting. Some say Rule's most important contribution was making it possible for Freddy Silverman and Roone Arledge to work in the same building for years without killing each other. There is Dick O'Leary, lapel-grabbing and bombastic, whose group of owned TV stations consistently outperforms those of other networks. Then there is Executive Vice President Fred Pierce, O'Leary's polar opposite. The network's designated heir, Pierce is as quiet as O'Leary is loud. But in his 26 years with the company, the methodical Pierce has succeeded at every position he has had: research, sales planning and programming. There's also Jackie Smith, vice president of daytime programming, who, as queen of ABC's soap operas, is a wiry bundle of corporate profitability.

But no one so typifies ABC as Julius Barnathan, president of broadcast operations and engineering. Barnathan, who guided the development of much of the broadcast technology ABC is famous for, like minicams and closed-captioned broadcasting for the deaf, has a penetrating mind housed in the fireplug-like body of a Mafia hit man. Bulldozing his way around the cocktail party, with sushi dangling from chopsticks in both hands, Barnathan becomes apoplectic when asked if new cable technologies will doom broadcasting. "There isn't enough programming, so what good is the technology?" he barks. "Now they

ABC's longest-running series



1. Leonard H. Goldenson
Chairman of the Board and Chief Executive Officer
2. Elton H. Rule
President
3. Frederick S. Pierce
Executive Vice President

4. Herbert A. Granath
President ABC Video Enterprises
5. Roone Arledge
President ABC News and Sports
6. Julius Barnathan
President ABC Broadcast Operations and Engineering
7. James E. Duffy
President ABC Television Network
8. Richard A. O'Leary
President ABC-owned Television Stations
9. Anthony D. Thomopoulos
President ABC Entertainment
10. Bernard G. Hoberman
President ABC Radio
11. Michael P. Mallardi
Vice President and Chief Financial Officer
12. Everett H. Erlick
Senior Vice President and General Counsel
13. Robert G. Burton
President ABC Publishing
14. John C. Severino
President ABC Television

can bomb on 100 channels instead of just 3. You want some sushi?"

But nothing they had seen at previous meetings prepared the affiliates for the surprise they got when Boone Arledge, 51, president of ABC News and Sports, strode to the podium to introduce his guest speaker. Arledge, the man responsible for foisting Howard Cosell upon an unsuspecting nation, stunned the affiliates when he produced President Ronald Reagan, live by satellite, for a private press conference with them. When Reagan's enormous image appeared Wizard of Oz-like on the auditorium's movie screen, a gasp of amazement went through the crowd. It didn't matter that the delighted affiliates' questions were like slow-pitch softball ("Mr. President, are you in favor of less regulation of broadcasting?"), or that the President didn't give an exactly straight answer to any of them. When Reagan's image disappeared as genie-like as it had come, they sat there spellbound. No amount of expensive junketeering could have matched the effect.

Presiding over this team is Leonard Goldenson, who began his entertainment career running movie theaters, and went on to preside over ABC's triumph in TV broadcasting. Goldenson has his critics: Why, they wonder, should a man of 76 cling so stubbornly to the title of chief executive. But Goldenson brings a valuable perspective to the business. The affiliates listen intently as he says: "When radio came, the record industry was doing \$100 million of business and everybody thought it was ruined," he said. "Now, after years of using radio

to promote records, the record industry's sales are around \$3.5 billion a year." Nobody missed the analogy.

Behind Goldenson's rhetoric is a homely truth. Cable may be the wave of the future but right now it has only a limited amount of appealing new programming. One interesting straw in the wind: Some executives at Home Box Office, the country's most successful pay-cable movie program service, have privately acknowledged to *FORBES* sources that, in each of the last three months, the disconnect rate has been running alarmingly above normal. In any case, there is only a limited amount of money out there to pay for cable programming (*FORBES*, May 24). Furthermore, there are limits to how much different programming viewers will absorb even if they have paid for it.

What about the threat ABC faces in its backyard, network TV, where CBS has been in first place in prime time for two years. By the end of the second half of last season ABC had cut CBS' lead to a hairbreadth 0.4 ratings points and had 13 of the top 30 series, compared with 12 for CBS and 5 for NBC. ABC also rallied with the two highest-rated new series premiering in 1982: *Joanie Loves Chachi* and *T.J. Hooker*. In addition, ABC's movies were highest rated—20.2 points, compared with 16.7 for CBS and 14.8 for NBC. Finally, ABC's *Monday Night Football* drew its largest audiences ever in 1981—over 27 million viewers.

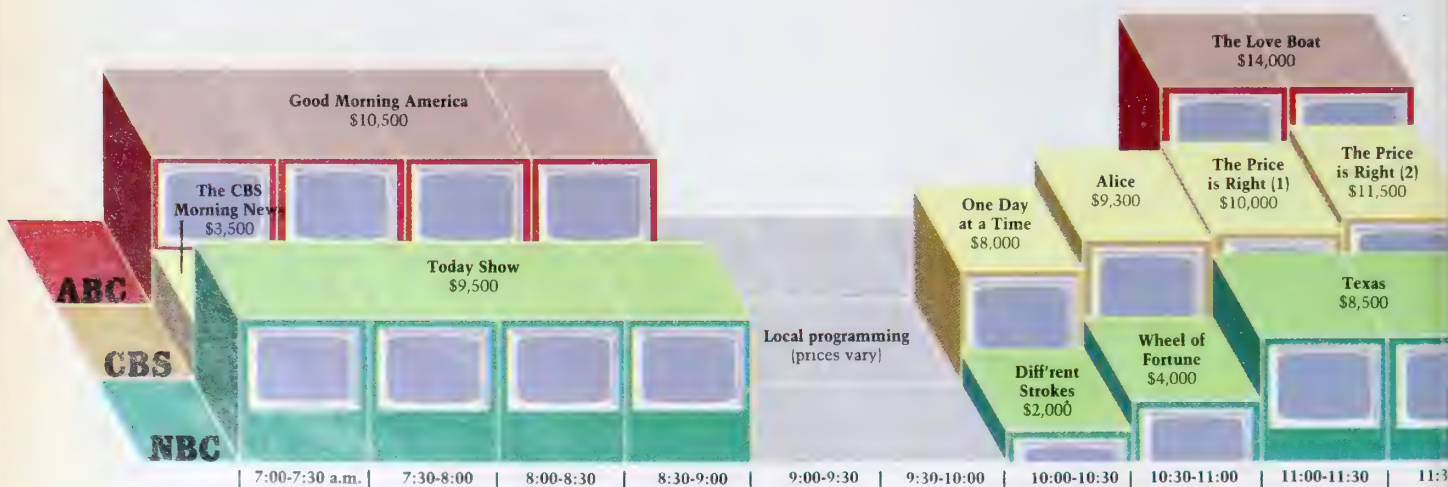
But to understand ABC's real strength, one has to look a little deeper. Advertisers buy TV time based largely on the demographic makeup of the audience rather than just relying on ratings points. Whichever net-

work is most cost effective at providing the audience desired by an advertiser is therefore the best buy.

In the case of most products that are advertised on TV, sponsors are looking for an audience of younger adults (18-to-49 years old) in urban/suburban counties. More advertising dollars are thrown at this group than at any other. According to studies by Nielsen and Simmons, ABC is the network most effective at reaching this audience.

When measured for its ability to reach this audience of adults 18 to 49 years old in prime time, ABC's performance last season improved dramatically. It won 29 of the half-hour time slots, compared with 13 for CBS and 2 for NBC. So even though last season was CBS' second year of regained prime-time ratings leadership and its commercials should have commanded a premium, ABC's sold at higher costs per thousands. As a result, ABC has the largest share (36.3%) of all prime-time advertising revenues.

Important as prime time is, the real earnings power of ABC's broadcast operations is in daytime TV. ABC's daytime schedule, including soap operas *Ryan's Hope*, *All My Children*, *One Life to Live*, *General Hospital* and *The Edge of Night*, has been number one in the ratings for 18 straight quarters. Over the last year, while CBS and NBC suffered declines in ratings, ABC registered increases to the point where its percentage of the vital 18-to-49-year-old female audience was greater than the other networks' combined. Its soaps often outdrew shows in prime time.



Love and money in the afternoon

ABC's commanding lead in daytime ratings turns directly into cash. The dollar amounts under the program titles in this chart are the average prices each network charged for a

Because of its commanding lead in the Monday-to-Friday daytime schedule, ABC controls more than 50% of all network daytime advertising dollars. That is not as much revenue as prime-time programming provides, since an average 30-second prime-time commercial fetches \$75,000, compared with \$16,000 for daytime. But more of that revenue is clear profit because daytime programming is so much cheaper to produce. A half-hour prime-time show can cost \$350,000. For the same money ABC can produce a full week of hour-long episodes of a soap opera. So daytime shows, including its *Good Morning America* show, which last season increased its lead over NBC's perennially top-rated *Today Show*, are twice as profitable as prime time for ABC.

A contributing strength is that ABC owns and produces four out of five of its soaps. The other networks have long licensed some of theirs from Procter & Gamble under agreements that lead them to grant favorable rates to P&G for its commercials. This limits the revenues CBS and NBC can get from daytime TV.

Roone Arledge's News and Sports division is also on the upswing. ABC Sports registered the four highest-rated sports series this year, and big-ticket items like the 1984 Olympics are already starting to pay off. To recoup rights and production costs

amounting to a whopping \$452 million for the games, ABC is charging half a million dollars a minute for prime-time commercials. With a little over 75% of its commercials sold, the network is approaching the break-even point and is on its way to roughly \$80 million in profits.

News, under Arledge's guidance, has turned around smartly. When Arledge took over in June 1977, ABC News' all-important evening show, anchored by the mismatched and fractious Harry Reasoner and Barbara Walters, had an 18% share. CBS News with Walter Cronkite had 30%, and NBC News with John Chancellor had 26%. Today, using an innovative three-anchor style, ABC is neck-and-neck with CBS for the network news ratings leadership and NBC is third.

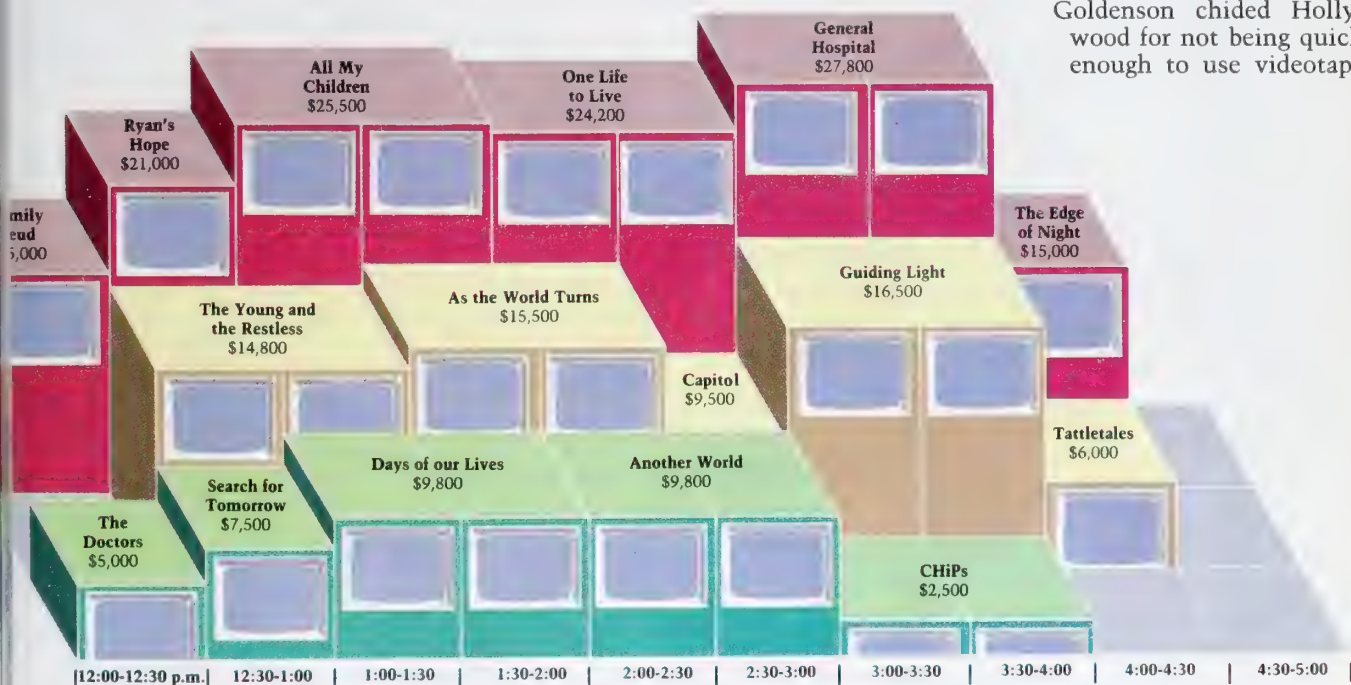
All this has made ABC the largest advertising medium in the world: In 1981 its gross revenues of \$2 billion were higher than those of any other network or publication. Unfortunately, until recently, ABC didn't have profit margins to match. In its intense drive for an additional ratings point or two, ABC allowed costs to skyrocket during 1976-81. With the exception of 1979, revenue growth decelerated every year after 1977, while costs grew faster almost every year.

As the ratings war heated up during 1976-81, the competition for prospec-

tive series grew to insane proportions. The networks began granting "relief" (compensation for production-cost overruns) almost as a rule, rather than forcing producers to live within their budgets. Salaries demanded by actors and writers were bid up. In one famous example, actress Suzanne Somers of ABC's *Three's Company*, in the fourth year of a five-year contract, demanded that her salary per episode be raised from \$35,000 to \$105,000.

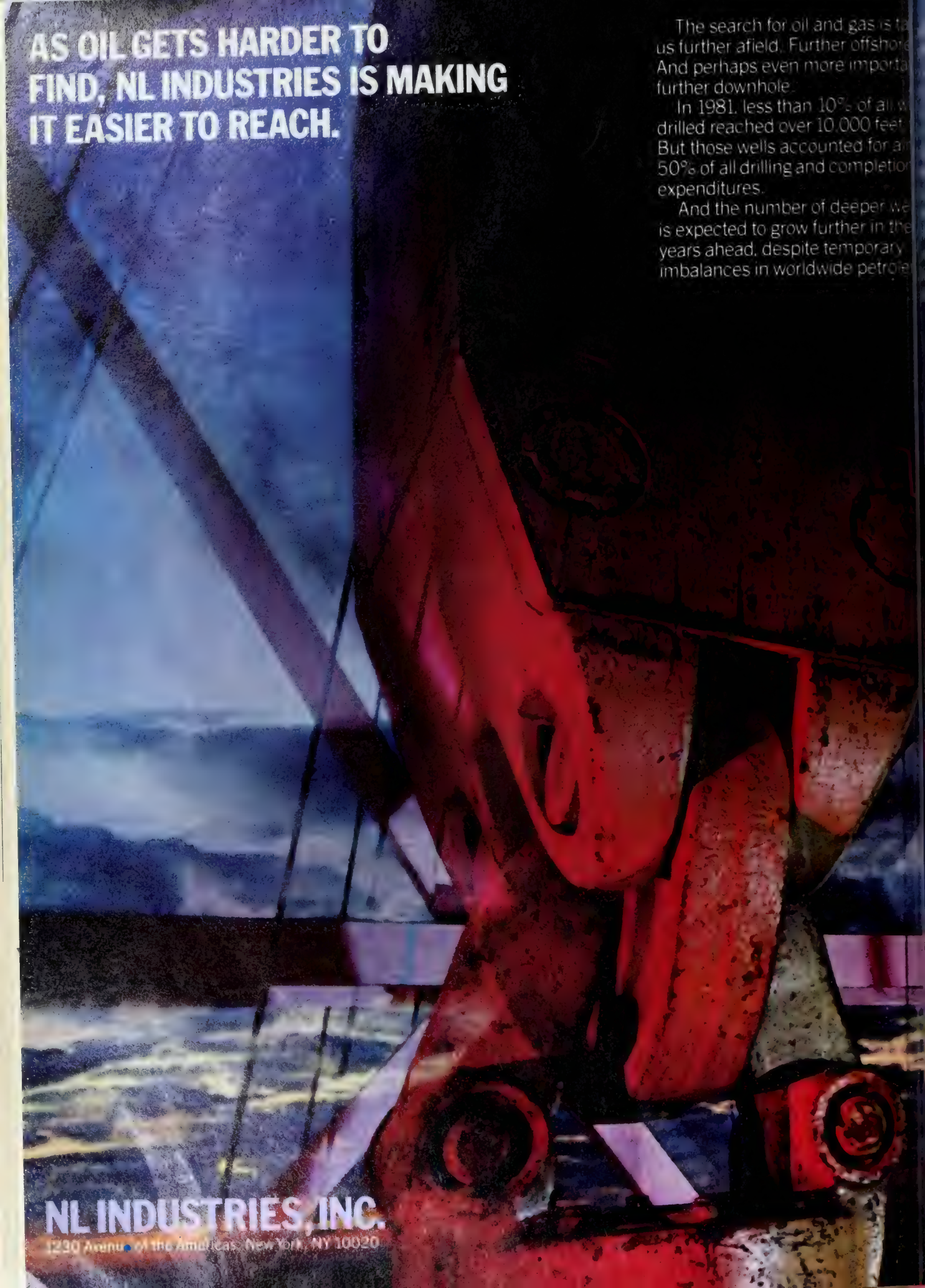
That did it! Even though *Three's Company* was a hit and Somers its star, with her face on practically every magazine cover in America, the show's producer, NRW Co., turned her down and ABC made the rejection stick. ABC then started up a network-wide cost control program. "You had to lose individuals or programs to change the psyche of the creative community," says head programmer Tony Thomopoulos, president of ABC Entertainment: "We learned that in 90% of the cases we can afford to lose the [prospective new] show."

ABC also began putting the arm on its suppliers to work cheaper. Seeing that cable services like HBO were eroding the ratings ABC got for showing feature films, Goldenson went to the West Coast and told the studios bluntly that their films were no longer as valuable to him and that he was no longer going to bid as much for them. The other networks followed suit. Similarly, last month Goldenson chided Hollywood for not being quick enough to use videotape



30-second commercial during that show in the second quarter of 1982. Advertisers pay networks based on their share of audience. Thus, as ABC's share increases, its

commercials command an increasing premium. What other networks can charge must fall proportionately, since their audience share decreases as ABC's grows.



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The search for oil and gas is taking us further afield. Further offshore. And perhaps even more importantly, further downhole.

In 1981, less than 10% of all wells drilled reached over 10,000 feet. But those wells accounted for almost 50% of all drilling and completion expenditures.

And the number of deeper wells is expected to grow further in the years ahead, despite temporary imbalances in worldwide petroleum

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surveys, and other services from
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for casing and tubing—to handle
deep well pressures and corrosion.
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services; tool rental; well workover,

maintenance, and completion services
to oil and gas drilling contractors.

In short, NL Industries is ready for
the challenges deeper wells and
deeper drilling will bring. With a com-
plete range of products and services
that fill the needs of today. And prepare
us for those of tomorrow.



Petroleum Services
and Equipment Worldwide



and high-definition television technologies to produce films more cheaply. "Today we can shoot a half-hour prime-time comedy on tape for approximately \$50,000 less per episode than we can shoot it on film," he says.

Such cost control was never more important than it is now. Advertising budgets are not growing as they used to. Among the 100-or-so large TV network advertisers who buy "upfront" (make advance commitments for) prime time, budgets are running just 14% above last year's. Moreover, as the networks gradually lose audience share to cable TV and independent stations, smaller shares of those slower-growing budgets will flow to them.

To compensate for the loss of rev-

enues growth, ABC will have to generate supplemental income from new technologies. But the people who run ABC are determined not to be carried away with the new technologies and allow them to undercut ABC's hard-earned profitability.

In keeping with its newly raised cost consciousness, ABC is going about the ventures in a cost-effective way. Rather than spending \$600,000 to film a command performance of Luciano Pavarotti, the famous tenor, at Carnegie Hall, ABC chose to buy the rights for ARTS, its cultural cable channel, to the same Pavarotti program previously filmed at La Scala for around \$10,000.

Herb Granath, president of ABC Video Enterprises, is taking the same cautious tack ABC took 21 years ago in developing *Wide World of Sports*, which went on to become the number one rated year-round sports program on TV. Granath points out that presently there are so many channels to fill on cable, that many cable system operators are more interested in getting more programming than in getting the finest. "Achieving a major programming success is a lower priority for us than for our competitors," he says. "Cost control is much higher on our list of priorities."

The result: ABC's development losses in 1982 will probably be only one-third those of CBS' losses of about \$60 million. The comparison may be even more favorable. ABC pays for these development costs out of earnings. CBS is capitalizing an undisclosed portion of its losses.

Because ABC has carefully kept the development burden manageable, its investment in new ventures can all be funded internally. It hasn't had to touch its bank credit lines or look outside for loans, as has CBS. Indeed, ABC's working capital grew almost \$88 million in 1981, to \$597 million; it had over 20% of its current assets—\$194 million—in cash and marketable securities as 1982 started, and an enviable debt-equity ratio of 0.18.

Perhaps ABC's most interesting new venture is a recently announced national program distribution service called the Home View Network. HVN offers movies, sports, concerts, children's programming and, perhaps, legitimate theater, in a way that combines broadcast and videocassette technology. ABC's affiliates will transmit HVN's programming to videocassette recorder (VCR)-owning subscribers in their markets in a scrambled form during the middle of the night. Those subscribers set their machines to automatically record the en-

coded programs while they sleep and then play them back whenever they choose. When they become subscribers (for about \$20 a month), a special decoder is connected between their VCR and television, allowing them to see the programming. Since the tape is in scrambled form, it can't be duplicated or shared with other VCR owners, so copyright is preserved. Because of this feature, movie companies are making their films available to HVN months before they release them to pay cable services. For the (now) approximately 4 million VCR owners, this form of electronic distribution of recorded video will be cheaper and much more convenient than going to stores to rent or buy tapes.

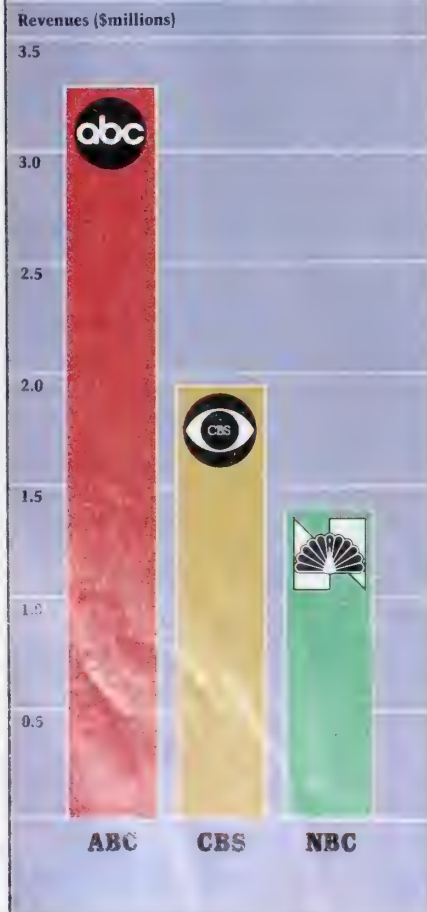
Unlike cable, HVN doesn't freeze out ABC's affiliated stations. Because the programs are encoded onto videotape before transmission, the affiliates won't have to modify their equipment. They will be able to broadcast HVN programs the same way they do other network shows. ABC will handle all the marketing and programming for the affiliates, asking only that they help with the advertising. In return, the affiliates will get network compensation for operating in a time period that never brought them revenues before. In the past, whenever a network announced some new cable venture, its affiliates grumbled that it was only worsening the competition they were facing in their home markets. Now, alone among the networks, ABC has figured out a way that allows its affiliates to participate with it in the new technologies.

The investment in HVN will be small because it uses ABC's existing distribution network and the VCRs purchased by others. So most costs of the system to ABC are variable. In fact, ABC's developing of HVN is like developing a cable system with all the trunk and feeder lines already in place. Compare that with CBS, which is paying for all the hardware of its operating cable system in Dallas, Tex.

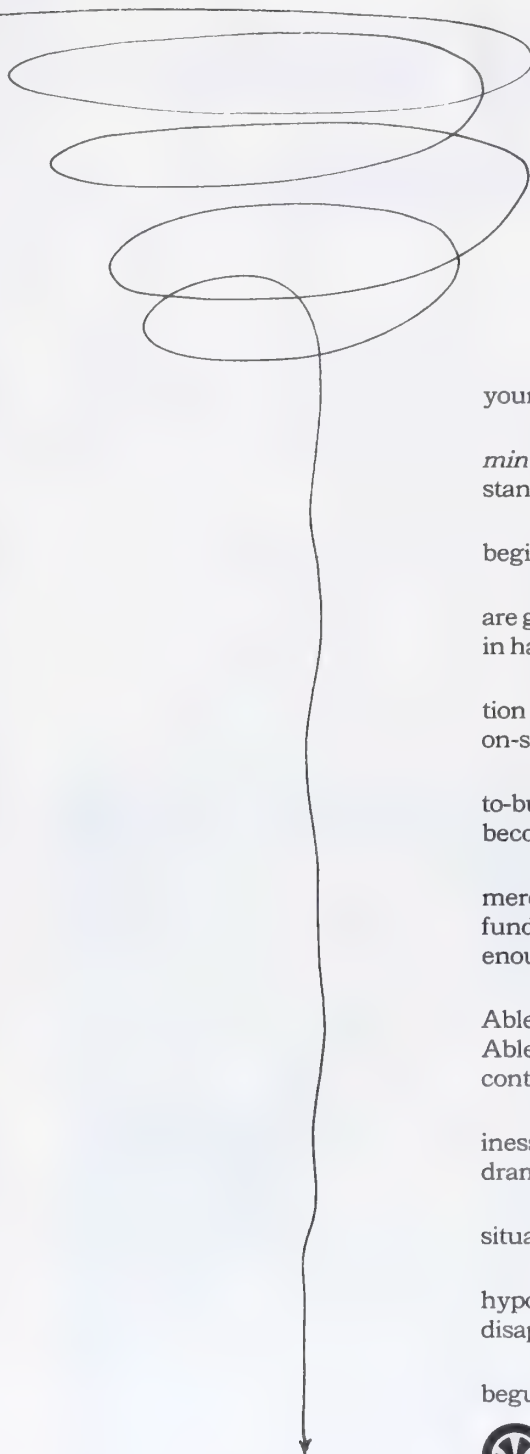
But perhaps ABC's greatest asset is its hardheaded view of what business it is in: *entertainment*. ABC executives don't view the company chiefly as a network broadcaster, nor are they intoxicated with the shining new technologies. They recognize network and the technologies for what they are in the entertainment scheme of things: distribution channels. An ABC executive puts it very well: "Anyone with programming has to use all available channels of distribution." Even if, as in the case of HVN, ABC has to invent an entirely new one. ■

Daytime leverage

Commercial time costs more at night because the audiences are bigger. But the networks run twice as many "spots" by day—twelve 30-second units each half hour—so higher prices fetched by higher ratings are powerfully leveraged. Below, that leverage at work if all the networks sold all their time at top prices.



What will you do when "float" goes down the drain?



Time will no longer be on your side.

Payment terms of "2%/10 minutes" may become the standard.

It's not far off. It's already beginning.

Right now, experiments are going on to cut float time in half.

Electronic check collection is starting to dribble on-stream.

And electronic business-to-business payments are becoming more widespread.

A rigid program that merely reports where your funds are simply won't be enough.

You'll need a fluid system. Able to meet funding needs. Able to keep borrowing under control.

The way you do business will have to change dramatically.

We're staying on top of the situation.

Because it's no longer hypothetical that float could disappear.

Somebody has already begun to pull the plug.



CONTINENTAL BANK

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With U.S. government help, Motorola's Bob Galvin has his toe in Japan's normally closed telecommunications market. But he's hardly swimming in profits.

Making waves in Japan

By Howard Banks

JAPAN'S CHRONIC AND increasing trade surplus with the U.S. and with the E.E.C. is a perennial problem. So is penetrating its home market—especially in telecommunications where Nippon Telegraph & Telephone Public Corp., the Japanese equivalent of Ma Bell, is the major buyer. Last February, however, Motorola made an important breakthrough.

After getting an order from NTT for pagers, those annoying pocket devices that beep when there is a call back at

the office, Motorola has now been accepted into the research and development "club" for NTT's proposed acquisition of mobile telephone equipment. Without such access, it is virtually impossible even to bid on an NTT contract—an effective nontariff trade barrier.

The first breakthrough on pagers, four years ago, came as a result of consistent pressure from Washington. That only got Motorola's toe in the door. "The government couldn't get us an order," says Robert Galvin, Motorola's chairman and CEO. "We only got that by delivering a perfect prod-

uct that tests out 100% and then works and works and works in the field." In fact, less than 1% of the several thousand pagers delivered since 1980 have been returned, but to accomplish that Motorola thoroughly redesigned its unit to comply with NTT's tough standards.

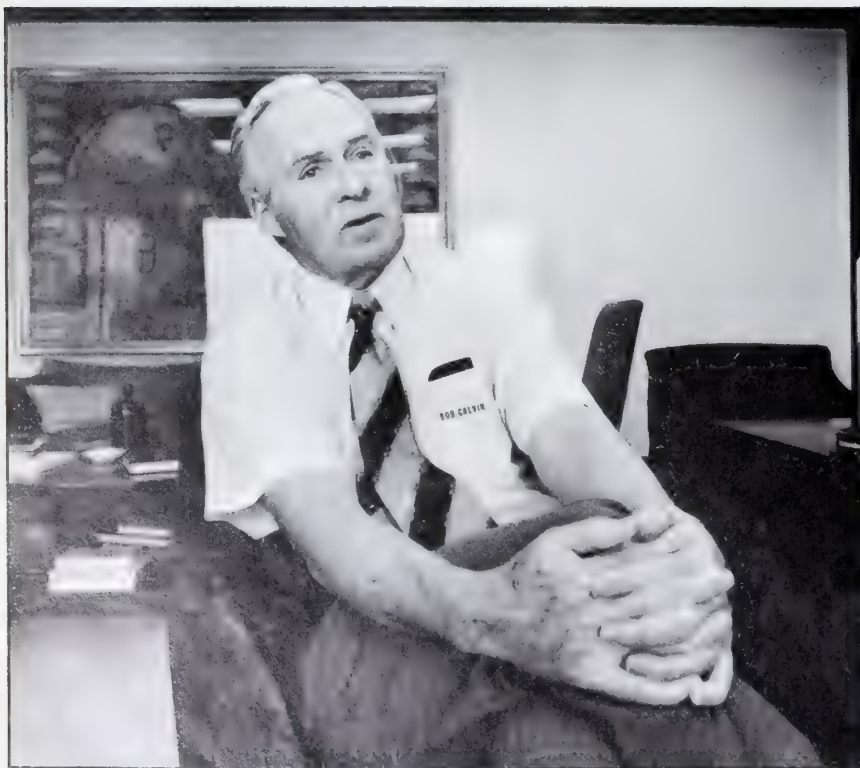
Even though the Chicago manufacturer is now the sole foreign supplier involved in designing Japan's mobile telephone network, Motorola is a long way from making money from the venture. Its investment in the total project comes to "many millions of dollars"—Galvin won't be specific—and so far there have been only \$9 million worth of orders for the pagers alone. "Getting a return will probably take four or five years," says Galvin, admitting that he takes a very long view of his NTT victory.

Gaining even this minimal access, however, has not blinded Galvin to the other trade problems with the Japanese. He's particularly worried about what the experts call targeting. Japanese companies, backed by their country's law, select appealing market segments and go all out to get a dominant share of the business. A good example is memory chips used in small computers. Before recent U.S. inroads, the Japanese had a 70% share of world sales of 64K dynamic RAMs. Similar coups occurred earlier with motorcycles and cameras.

Galvin views these allout national marketing efforts as blatantly anti-competitive. He's making his case strongly—and in public. Couldn't that hurt his tentatively successful deal with NTT?

"There is a risk," he admits, "but it's one we have evaluated. This is just like basketball. You need to have both an offense and a defense to win. Our offense will be taking products and service to Japan in a high-quality way, in high-level markets. Our defense is that Japan's trading practices in selling into the U.S. have to be questioned and made consistent with our laws."

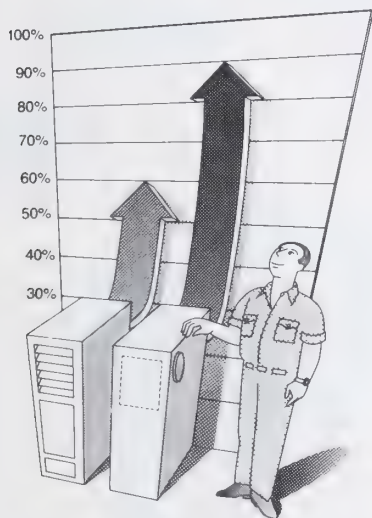
To that end, Galvin wants a raft of changes to U.S. trade law. The main items on his wish list are: to make targeting a basis for trade relief in terms of countervailing duties, with retroactive penalties added; to set market-share ceilings for countries that practice targeting; and to change the antidumping laws to protect emerging high-tech industries from predatory pricing. "My sense is that U.S. and European business leaders believe that Japan has protected and publicly supported its industries too much and too long," he concludes. ■



Motorola Chairman Robert Galvin
A breakthrough, but at a price.

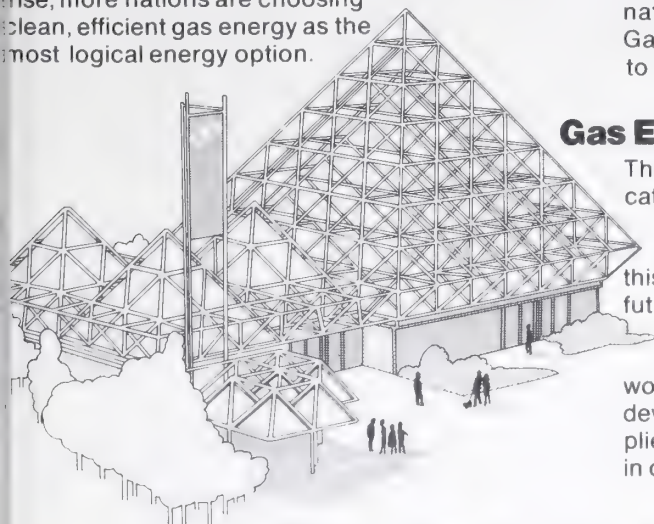
GAS ENERGY UPDATE

News on the critical role of gas energy in meeting America's energy needs—today and tomorrow.



Western Nations Choose the Gas Option.

An energy-use study conducted among Western nations belonging to the Organization for Economic Cooperation and Development (OECD) notes a determined shift away from the use of oil as a major fuel and a substantial increase in the use of gas as an alternative. Overall gas consumption increased in 16 of 17 member nations under study between 1974 and 1978. Of those nations, 10 also reduced oil imports. The United States was the only nation not reporting an increase in gas use during those years. However, between 1978 and 1980, U.S. oil-to-gas home heating conversions tripled! As energy prices rise, more nations are choosing clean, efficient gas energy as the most logical energy option.



New Generation of Gas Heating Equipment Increases Gas Efficiency.

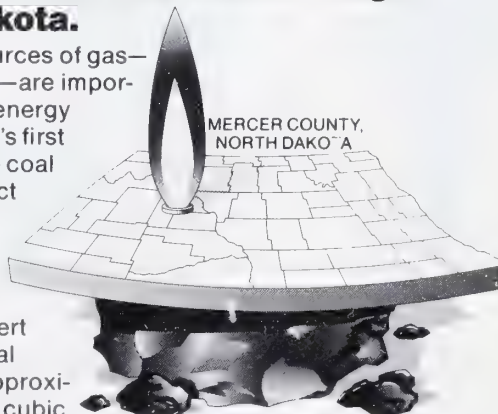
A new generation of ultra-efficient gas heating equipment now on the market helps make America's most efficient energy system even more efficient. Producing more heat from the gas they use, these innovative designs show efficiency ratings up to 50% higher than conventional gas heating equipment—a significant savings for residential consumers.

A new design utilizing the pulse combustion principle provides gas heating units with the highest seasonal efficiencies ever achieved, and without pilot light, burner or chimney. Another reason why gas—America's #1 heating system—will remain the best energy value.

Large-Scale Coal Gasification Begins in North Dakota.

Supplemental sources of gas—like gas from coal—are important to America's energy future. The nation's first commercial-scale coal gasification project is now under construction in Mercer County, North Dakota.

Designed to convert 14,000 tons of local lignite coal into approximately 125 million cubic feet of synthetic natural gas per day, this project will provide enough energy to heat half a million homes a year. In addition to providing valuable economic, environmental and technical data for future coal gasification projects, the North Dakota project demonstrates our nation's commitment to reducing its dependence on foreign energy. Gasification is the most efficient and environmentally desirable way to utilize our nation's vast coal reserves.



Gas Energy Discovered at the 1982 World's Fair.

The 1982 World's Fair in Knoxville, Tennessee—the first ever dedicated to the theme of energy—shows that we must look to a mix of energy sources to carry us into the 21st century and beyond.

The Gas Energy Pavilion at the Fair is a symbol of the critical role this clean, environmentally superior fuel will play in our energy future. For good reasons: Newly designed fuel-saving gas appliances and equipment make the gas system more efficient than ever. Supplies are plentiful—at current rates of consumption, world gas reserves will outlast oil reserves by decades. And the development of new supplemental sources can extend gas supplies even further. Clean, efficient gas energy—it's the bright spot in our energy future.

Gas: The future belongs to the efficient.

For more information, write to American Gas Association, Dept. 33-DD, 1515 Wilson Blvd., Arlington, Va. 22209 © 1981

Taxing Matters

Here's the accountants' daydream: an island paradise where the tax code is no thicker than a dime novel.

The Hong Kong solution?

By John A. Byrne

WITH THE RISING TIDE of rebellion against the absurd complexity of the U.S. tax system, it might be worth a quick glance at a place that has a far simpler one: Hong Kong.

Hong Kong? Most international accountants agree that their Nirvana might be found on that 400-square-mile rock off the China coast. It has no payroll or sales taxes. No capital gains taxes or dividend taxes. No taxes on trust income or gifts. And no taxes on income earned abroad. Just a simple, flat 16½% on corporate income. For individuals, it's much the same—a maximum effective tax rate of 15% on gross income above \$3,400.

Compare that to the Commerce Clearing House version of the U.S. tax code with accompanying regulations, which totals some 10,000 pages. That's more than 35 times the size of Hong Kong's tax code and regulations.

Of course, you have to pay for that simplicity. In Hong Kong there are no lucrative leasing deals, no foreign or investment tax credits, depletion allowances, tax shelters, mortgage interest or medical expense deductions. There are also fewer professional accountants: a puny 0.26 per 1,000 Hong Kong residents compared with 1.2 per 1,000 in the U.S.—not including the annual army of tax preparers.

The single major allowance given corporations in Hong Kong is for depreciation—35% of the cost of new plant and machinery for the first year with rates of 10%, 20% or 30% in each subsequent year of the working life of the item until fully depreciated.

Take a company with gross income of \$100 million. Deduct nontaxable income: \$5 million in dividends, \$2



million in capital gains, \$35 million in offshore earnings. That gives you \$58 million. Then subtract, say, \$1.4 million in first-year depreciation costs on an initial \$4 million investment. You get \$56.6 million. A flat 16½% of that, roughly \$9.3 million, is what you send to Inland Revenue.

What are the chances of the U.S. importing Hong Kong's tax system? Not too good. Since Hong Kong gets only 27% of its revenues from corporate and individual income taxes, they're not as important as in the U.S., where roughly 49% of the budget dollar comes from that quarter. The vast majority of Hong Kong's income, 46%, comes from property leases and investments. So, if the idea were transplanted to the U.S. as is, the revenue shortfall would be immense. Granted the lower rate would be a stimulus to the economy, but that might well be offset by the disincentive of lost loopholes.

Still, two components of Hong Kong's code could be transplanted: the flat-tax concept and the elimination of foreign tax credits. The flat tax is gaining ground in Congress and would seem to provide a more equita-

ble system of distributing the load, without all the deductions and exclusions that now litter the system.

Whether it is politically feasible is a very real question. There are a lot of people who are addicted to exclusions and deductions. Whether the U.S. would be willing to give up the granting of loopholes as a tool is questionable. Says Marianne Burge, a partner with Price Waterhouse: "Along comes an energy crisis and the tax credits and incentives will get put back in."

Abolish foreign tax credits? It might make sense but it's dangerous. "There's no question that the credit is about the most complex item in our code and there is very little revenue in it for the government," says Michael Henning, an Ernst & Whinney partner. Adds Burge, "But if you get rid of it, everyone would be off to low-tax countries."

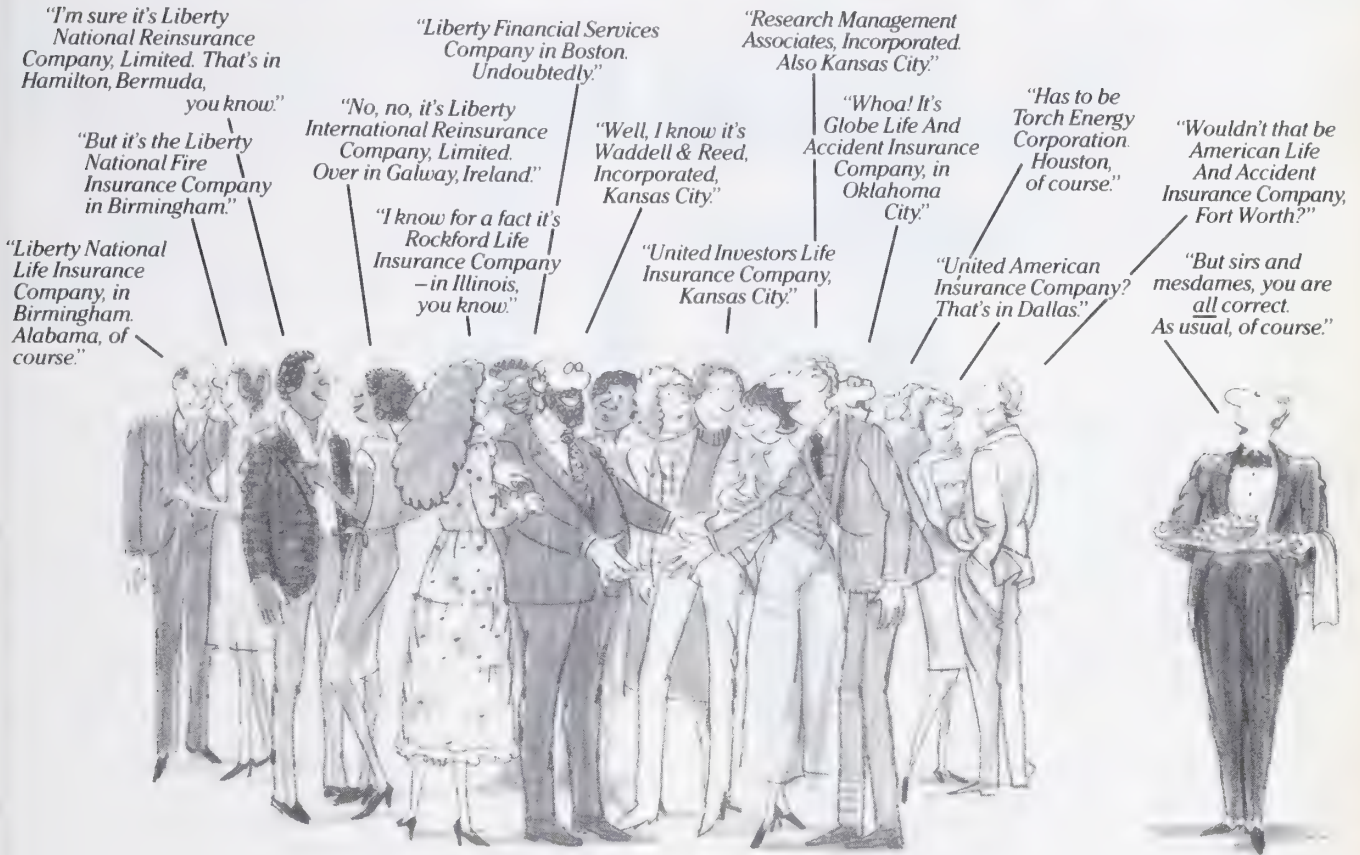
While Hong Kong accountants have few loopholes to fiddle with, the game on the rock is to push as much income as possible offshore—so it is not taxable. One ploy: Salesmen in Hong Kong jump aboard the ferry to nearby Macao, a Portuguese colony, to sign contracts. Typically, the Hong Kong firm contracts with the Macao importer, a subsidiary, to handle goods made outside Hong Kong in the firm's plants for shipment back to a distributor in Hong Kong, another unit of the parent, which eventually would earn the income untaxed. "Although it's not widely practiced now, you did have contingents of salespeople going over to Macao to sign contracts," says Campbell Corfe, a Main Hurdman partner.

So, how efficient is Hong Kong's system? The government estimates it costs \$1.10 to collect every \$100 worth of tax revenue. The IRS maintains its costs are only 44 cents for every \$100. Sounds wonderful at first blush, but the IRS estimate is based on all taxes it collects—30% of which are Social Security and other taxes not requiring much effort other than bookkeeping. Even so, Hong Kong's simplicity wouldn't appear to make that great a difference.

But take a closer look. Experts generally agree that one of the greatest threats to our tax system is the growth of outright tax avoidance. The more complicated the system, the more people think they're being cheated, and the more likely they are to cheat.

Even if Hong Kong's system isn't transferable to a country immensely more complex and individualized, its simplicity begins to look like a valuable goal in and of itself. ■

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The unions may complain about secretive corporate managements. But try to figure out what's going on inside the unions.

The union books

By Karen Cook

EVEN AS THE NATION'S labor unions agonize over forced givebacks, their real financial condition is often impossible to diagnose. Without audit requirements, uniform accounting techniques or even accessible financial statements, it is quite possible that no one would know if a big union were about to go bust.

In a survey of 52 big union auditing reports, Professors Rita Hull and Ronnie J. Burrows of Northern Illinois University and the University of Dayton found that over one-third didn't conform to the auditing standards suggested for nonprofit organizations by the AICPA. In fact, the union "audits," often seen as a confirmation of accuracy, are sometimes more misleading than an unexamined report.

Most disturbing, some auditors were union members, often the same ones who had prepared the financial figures initially. Says Hull, "You're talking a lot of dollars. It's frightening to think that many of them are not audited by independent CPAs." Surprisingly, the unions' regulatory agency, the Department of Labor, doesn't require independent audits of financial data. And, not surprisingly, the unions are in no hurry to police themselves. Most of the larger unions voluntarily hire independent auditors, but many locals are not audited at all. And that's where most of the cash originates.

"They put down entertainment expenses in the locals, but nobody knows exactly what that means," said one Department of Labor source who didn't want to be named. The fact is,

the locals work on so-called fund accounting, which divides sources of and uses for funds into a number of separate accounts. This is the system badly abused by many municipalities (FORBES, Mar. 3, 1980), but at least a reader of municipal statements has a pretty good idea what the sanitation fund is used for. In union accounting, the uses of the funds are frequently much hazier.



Even without pension funds, which are accounted and regulated separately, there is a lot of money in these unions. The \$300 or \$400 that a member of a big union like the Teamsters contributes annually is split between the local and the national organization. Says Ronnie Burrows, "Sometimes they get quite a war chest out there for strikes. It can grow to the size of all the dues collected in a year." When there's no war, the money is invested, usually conservatively, in things like low-yielding U.S. government securities. Safe, certainly. But the best investment for inflationary times? Not necessarily.

With the allegations about abuses of funds in unions like the Teamsters, many union members fear misappropriation. But bad judgment is a risk as well. Often, says Burrows, union officers come up from the ranks with no particular financial expertise. At the Department of Labor, officials talk about pencil and nonpencil unions. "Some of these people had never held a pencil before the Landrum-Griffin requirements, and we can tell that by the crudity of their reports," says one.

The Labor Department requires a modified cash basis for reporting—halfway between cash basis, which counts income and expenses only as the checks come in and go out, and accrual, which books items when they are incurred. But translating a union's version of cash basis reporting onto Labor Department forms is not always an easy task. Even unions like the International Machinists, who keep their books on the accrual basis, object to redoing them on a less sophisticated cash basis. Joe Keffer of the Teamsters for a Democratic Union (TDU), a dissident group skeptical of the way the Teamsters have used their members' funds, scoffs, "The information reported to the Department of Labor is only a half or a third of what's on an audited financial statement. It raises questions, but it doesn't give you answers."

In short, labor union reporting and auditing standards are so inconsistent and ill defined they are almost useless. There are some logical suggestions, such as switching reporting to an accrual basis and requiring audits by independent CPAs. The problems are generally recognized, but no one is making substantive changes. The Labor Department is trying to speed up and expand its own auditing procedures, but the understaffed agency still audits only 900 of the 57,000 locals it oversees. The AFL-CIO issued a short statement encouraging better auditing by its members but the provision seems to have gone unnoticed. Most unions don't want more regulation, and won't ask for it. Douglas Carmichael, vice president of auditing standards, says the AICPA would help draft new rules, but "there's no way we can be a prime mover on this. It would look self-serving for an organization of auditors to say unions need audit requirements."

In the morass of union accounting, it seems, the only ones not being served are 24 million members of labor unions. ■

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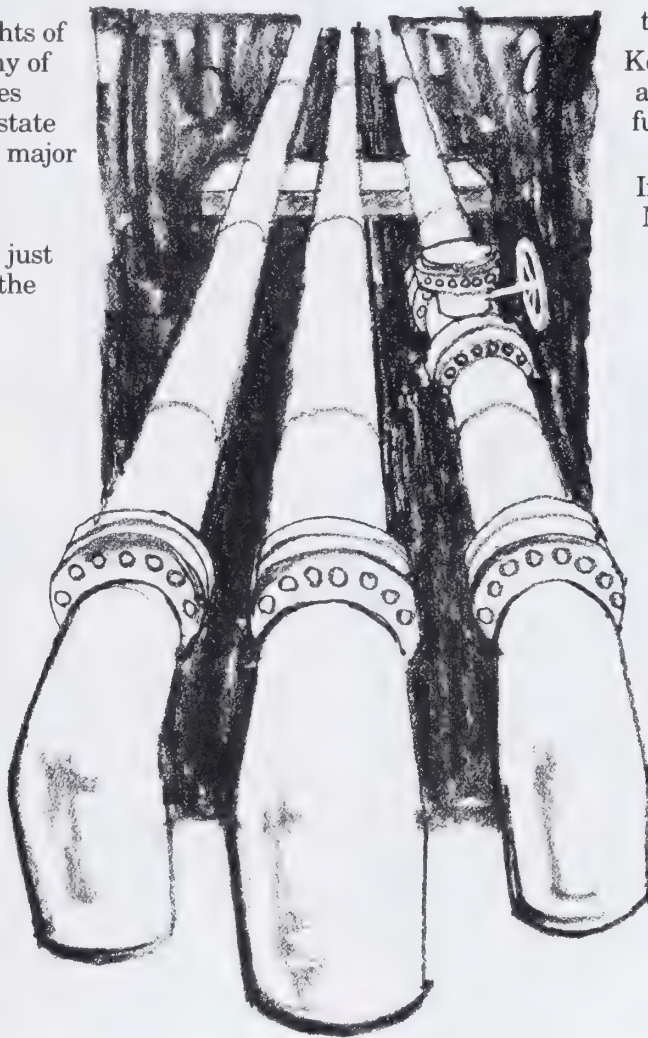
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The Up & Comers

By being fast at putting movies in hotel rooms, Spectradyne has given its shareholders a nice show. Is this the last reel?

Happy ending

By Anne Bagamery

EIGHT YEARS AGO, North Carolinian Howard Buchanan, 51, was selling fabric out of the trunk of his car to make ends meet. Today he's president and chief executive of Spectradyne Inc., a fast-growing, \$17 million (1981 revenues) company that shows pay-per-view movies

to hotel customers. Spectradyne's record in this booming business has the stock trading over-the-counter at around 14, or 13 times estimated 1982 earnings of \$1.10 a share. That means Buchanan is sitting on over \$1.5 million in stock and options. A true case of life-begins-at-40.

Spectradyne makes the black box on top of the television sets in

132,000 hotel rooms in the U.S. and Europe that guests can use to order up as many as four different feature films. Spectradyne rents the movies—lots of action, a little skin and no “messages,” says Buchanan.

In the past five years Spectradyne's revenues have grown 36% annually and net income has increased 14-fold, to \$2.6 million in 1981. Earnings per share have grown 36% a year, to 87 cents in 1981, and return on equity has averaged 40%, with debt now down to virtually nothing.

In-room movies are a nice deal for all concerned. Spectradyne or some other supplier company owns the equipment: in-room switching boxes that plug into the hotel's TV system, the film cassettes and a rack to hold and play them. In Spectradyne's case that works out to a capital cost of \$150 per room. For that the company takes 90% of the \$5-or-so fee charged per movie. The hotel takes a 10% commission for 15 minutes of employees' time to change cassettes. Those commission revenues don't amount to all that much—last year Spectradyne's 231 customer hotels took in around \$1.7 million, or around



Spectradyne President Howard Buchanan and his black box
“Christmas that year was pretty grim.”

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Forbes



The Up & Comers

\$7,300 per hotel—but those revenues are pure gravy.

Spectradyne's contribution to the industry was an automatic switching and billing mechanism that eliminated the need to call a hotel's front desk to switch on the movie. The old way resulted in a flood of calls just before showtime, causing delays and discouraging impulse buying, as well as confusing billing. With Spectradyne's Spectravision system, once a guest turns on the movie box, the movie starts automatically and the charge is recorded on the room bill. The system is identical to the pay-per-view technology that is thought by many to be the future for cable television (FORBES, May 24).

Today Spectradyne turns out 1,000 boxes a week from its cinderblock production facilities near headquarters in Richardson, Tex. Plans are to equip 50,000 new hotel rooms in the U.S. this year, 80% of which are already under contract. But Spectradyne owes its rapid growth to more than technology. In 1975 the then-tiny company bought out its major competitor—a Time Inc.-Columbia Pictures joint venture called Computer Television Inc.—and gained a virtual monopoly. Explains Arthur Adler of Laventhol & Horwath, an accounting firm specializing in lodging: "If one hotel offers movies, the other four in town rush right out and get them, too. And for years, Spectradyne was the only game in town."

Howard Buchanan is a businessman, not a pioneer. Spectradyne was founded in 1971 by four engineers moonlighting from Collins Radio (now a Rockwell International division). The founders, with little more than an idea and \$100,000 from a few wealthy friends, put together the first Spectravision system and by 1973 had convinced a Dallas hotel to try it out. Within a year the fledgling company had produced 1,250 boxes and had signed up 2 hotels, or 100 rooms, in Dallas and Denver.

Then Spectradyne stumbled: The company ran out of money and began missing payments to suppliers, some of whom charged into the company's two-room "production plant" and started removing components from the shelves. A typical startup snafu.

"We were so busy designing the thing and improving it that we didn't even think to take care of accounting and finance," says Earl Winkelmann, one of the founders and now executive vice president. "Engineers aren't

notoriously good at that sort of thing."

While Spectradyne's founders were struggling with their growing pains, another Collins Radio alumnus, Howard Buchanan, was coming on some hard times of his own. Son of an Oxford, N.C. grocer, Buchanan picked up an M.B.A. at the University of Michigan before spending eight years in the Collins marketing department in Cedar Rapids, Iowa and Dallas. Blocked at the top by bureaucracy, Buchanan answered a newspaper ad and found himself hired to run a sheet-metal firm. Sheet metal? "It was a beautiful company," he says—until defense contracts dried up toward the end of the Vietnam War. The company was liquidated and its building sold to a textile firm. So Buchanan, with two small children and a big mortgage, convinced the textile firm to hire him to run its milling operations. That

"We were so busy designing the thing and improving it that we didn't even think to take care of accounting and finance," says Earl Winkelmann.

lasted three years, or until the company's big products—polyester single and double knits—fell out of favor with Seventh Avenue. The company folded in 1974, and Buchanan took to the streets as a manufacturer's rep for several textile companies. "Christmas that year," he says, "was pretty grim."

From the blue came a call from another Collins ex that Spectradyne had a good product but desperately needed management. Why didn't Buchanan stroll over and offer his services? Buchanan did and Spectradyne was soon reborn.

The first thing Buchanan did was to set up an accounting system: "Those guys literally had no idea what they had in inventory or how much cash was in the till," he says. Next Buchanan sold off the "company cars"—a Chevy Blazer and Volkswagen Beetle—and pumped the \$1,300 proceeds back into the company. Then Buchanan saved the cost of a cleaning service by doing the job with his wife on weekends with paper towels and Windex brought from home. "The mandate I gave myself was to get this company in solid enough financial shape to attract some really big money," he says.

It worked: A venture capital firm backed by Dallas' Murchison fam-

ily bought up 26% of Spectradyne. Immediately thereafter Buchanan bought Computer Television Inc. for \$1.5 million, getting 30,000 rooms across the country that could be retrofitted with Spectravision for half what it would have cost to wire them from scratch. It also gave Spectradyne ready-made relationships with Hilton, Sheraton and Hyatt; today Spectradyne gets 84% of its revenues from hotels in those three chains and the Marriott chain.

A public offering in 1979 paid down debt, and another in 1981 provided capital to move to larger quarters and expand production. The Murchisons and Dallas Business Capital, another original backer, have reduced their holdings to less than 10% each. Buchanan says he will finance future expansion by drawing on a \$3 million credit line at a Dallas bank.

Not surprisingly, this gold mine is getting competition. Advances in cable and satellite-dish technology have brought costs down, and cable's growth in the home is creating a generation of people who want to watch cable in their hotel rooms as well. Cable now costs hotels between \$5.50 and \$15 per room per month, or between 26 cents and 35 cents a day. The cable players are all big people with plenty of money for selling and promotion, and they know a good market when they see it: Home Box Office, the nation's largest pay-cable supplier, has been selling 24-hour-a-day movies and specials to hotels since 1978 and already has 175,000 rooms—43,000 more than Spectradyne. Warner Amex, the nation's sixth-largest cable TV operator, has been selling to hotels only since last November and already has 1,000 rooms in Dallas alone.

Cable companies are hitting hard on downtown luxury hotels, Spectradyne's mainstay market. "If I were Spectradyne," says one cable TV analyst, "I'd be worried that I'd wake up one day to find myself obsolete."

Buchanan's reply is a new system that will show movies and be compatible with pay-cable, satellite-delivered or videotex (words on a screen) programming. That, along with Spectradyne's standing relationship with the hotels, will keep the wolves from the door, he thinks.

Can Spectradyne, with its R&D budget of \$300,000, expect to compete with an industry where half a billion dollars comes out of petty cash? At first glance its chances appear slim, but then who could have said Buchanan would have accomplished what he did? ■

The Up & Comers

Why wait a week for an operation when you can have it done in two hours, by the same doctor, at a surgery center?

MASH meets McDonald's

By Anne Field

If you can have your suit cleaned, shoes fixed and photos developed in one day, why can't minor surgery be done just as quickly?

Lynn Singley thinks it can. He plans to open 50 independent surgery centers—which he calls “sophisticated MASH units”—within the next five years. It is not a new idea. Some 107 such centers already exist nationwide. Owned mainly by the physicians and surgeons who staff them, they are open about nine hours a day and offer low-cost, rapid surgery for 300 or so operations ranging from

facelifts and tonsillectomies to correcting ingrown toenails.

What's new about Singley's Arizona-based American Surgery Centers Corp. is that he plans to take the idea national on a proprietary basis. The economics are appealing: By cutting out the need for 24-hour-a-day staff and service, prices can be slashed at least 50%. A hernia operation that costs \$875 at a regular hospital would carry a \$300 price tag at ASCC. Average stay at a center: 2½ hours, *vs.* about 7½ days for a regular hospital. Centers are located near existing hospitals, staffed mostly by registered nurses, and operations are performed

by a patient's own surgeon, who receives the same fee he would earn at a hospital.

Singley, who has a background in marketing and financial consulting, got the idea when he was running Commonwealth Funding, Inc. of Salt Lake City, which leased equipment to independent surgery centers. First, Singley shared ASCC's forerunner, Ford Surgical Centers, with Dr. John Ford as a consulting firm for doctors interested in establishing one-day centers. Then Singley decided to start his own centers. Financing came from friends, relatives and his own pocket, for a total of \$300,000. That was followed in fall 1980 by an initial public stock offering of 4 million shares that yielded \$1.6 million, with Singley and his backers retaining a 36% interest in the company.

So far, there is one four-room unit in Indianapolis, with centers in Little Rock and St. Louis scheduled to open soon. Trouble is, the company is now \$100,000 in the red because of heavy startup costs. Singley must also cope with heavy resistance from traditional hospitals. “Every time we move in, the local hospitals lower their prices,” he says. But he does have a major potential ally in insurance companies, who are eager to reduce the amount they have to pay in claims. Insurance companies have recently taken to including publicity about the centers in their premium notices. Aetna and Metropolitan Life often reimburse the total bill—depending on the policy—for surgery at ASCC centers. “As long as they are qualified, we think they are a good thing,” says Aetna's Robert Norton. That could be a crucial endorsement.

“Something has to be wrong”

When David Wachtel was named chief executive of \$269 million Shoney's, Inc. last fall, the company was doing quite well. The Nashville-based company's Big Boy and Captain D restaurants—which are full-menu, family-style places with waitress service—had nearly tripled sales in the last five years. The company averaged a 20.5% return on equity on long-term debt of 28% of capital. By comparison, the fast-food industry produced a 15.7% return on equity during that time.

Since taking over, Wachtel has been fiddling with the formula that made the restaurant chain a success. He has sold Shoney's 22 Kentucky Fried Chicken franchises back to Heublein, bought a midwestern fried chicken



American Surgery Center's Lynn Singley
“Sophisticated MASH units.”



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GRUMMAN



The Up & Comers

chain (Famous Recipe); and added a breakfast buffet to about 30 Shoney's restaurants.

Why tamper with success? "It's what Ray would have done as a young man," replies Wachtel in his soft Tennessee drawl. Ray is Raymond L. Danner, 57, who started as a franchisee in 1959 and became president and chief executive officer 12 years later. Wachtel should know what Danner would have done. He has worked for him since age 16, when he started as a dishwasher in a Shoney's in Nashville. In high school Wachtel was promoted to busboy, and after college he worked for Danner as a Shoney's

cook. At 28, Wachtel got a choice assignment: manager of the first Captain D's, which features seafood. "The first day of business was Aug. 20, 1969," Wachtel says. "We rang up \$85 in lunch sales. I forget my anniversary but I'll never forget that."

But now Danner has decided to slow down and Wachtel is on his own. And Wachtel is a plunger. After getting \$5.7 million in stock by selling the KFC franchises to Heublein, Wachtel promptly jumped back into the deep-fat fryer. Famous Recipe Chicken has to compete not only with the giants, like KFC and Church's, but also with newcomers, which include Wendy's Sisters Chicken & Biscuits and Horn & Hardart's Bojangles of America. And while

breakfast may be the fastest-growing segment of the restaurant business, there is only so much bacon and eggs a person will eat away from home.

But Wachtel is convinced the changes will prove profitable. Take the switch to buffet. "It's just damn easy to run," Wachtel says. "You don't have to worry about customers giving you a complicated order and fouling things up."

While Wachtel is charging ahead on his own, Danner, who owns 23% of the stock, watches like a proud father from the wings. And like any father, he still offers advice. When Danner heard how well breakfast was doing, he reportedly said, "Something has to be wrong. Nothing comes that easy."—Barbara Rudolph

The Funds

Before giant Putnam joined the health care mutual game, there was tiny Med Tech of Flourtown, Penna. You couldn't dream up a more classic contrast.

"The sincerest form of flattery"

By Barbara Rudolph

THE QUESTION is an old chestnut in the mutual fund game: Should an investor throw his money into a big mutual, with the capital to make hefty investments and still spread the risks? Or is he better off with a small fund, nimble enough to slip into thinly traded stocks without boosting prices?

There's an illustration of this classic dilemma in the interplay between Putnam, the old-line Boston money managers, and Medical Technology Fund, a tiny \$17 million no-load based in Flourtown, Penna. Med Tech was the only pure health care play around until Putnam jumped in four months ago with its Health Sciences Trust.

Putnam's HST began life with \$245 million, more than any other startup except Gerry Tsai's ill-fated Manhattan Fund. Aggressive promotion helped: Merrill Lynch, Putnam's lead

seller, was without a big product then, Chairman George Putnam explains, and "they have a big sales force that gets pretty hungry at times."

Meanwhile, Med Tech has been racking up an impressive track record of its own. Net asset value per share is up 36% since its start in 1979. Inevitably, it has been slipping—down 7.4% for the first quarter—but that's still slightly better than the average growth fund. Putnam's big bucks might help Med Tech, since Putnam undoubtedly will buy some of the same issues. "They'll put cement on the floor of our stocks," predicts Med Tech President John Cannon. "Imitation is the sincerest form of flattery," adds Executive Vice President George Stasen.

The folks at Putnam, for their part, seem a bit defensive. "Med Tech has no bearing on us. We don't pay attention to them," says Senior Vice President David Walsh. But me-too or not, Putnam says it is on to something big.

"We got more money than we expected or even desired," says George Putnam. At best he anticipated raising \$100 million, not \$245 million. Indeed, the fund will be closed to new customers at \$275 million. Maneuvering into thinly traded stocks will be tough, so Putnam will go slow. The fund may not be fully vested for nine months, and its managers don't expect to reach the upper limit of a 10% position in venture capital holdings they originally projected.

In the meantime, capital mass does have its advantages. Putnam is hoping to use its large cash position to snap up some bargains that a small fund like Med Tech might not as easily do.

Putnam will still lean heavily toward big company stocks—at least 60% will be in companies with capitalization of over \$100 million. That means a lot of large pharmaceutical and hospital supply companies. Eventually, an investor might begin to think that he could do better buying SmithKline directly. George Putnam is unfazed. "Small stocks are fun, but they're fringe. That's not where money will be made," he says.

Med Tech also buys a lot of big company stocks—about half of the portfolio is invested in companies with sales over \$250 million. The rest is in little technology stocks like Kevex and Nicolet.

Despite its solid record, Med Tech is a virtual unknown on Wall Street, while Putnam's fundraising success is big news. Why? Med Tech is a no-load fund, while Putnam's 8½% maximum load put about \$23 million into the pockets of brokers who sold clients on its unproved health care expertise. Keep watching to see which fund was a better buy. ■

The charitable grants of California's Buck Trust would be laughable if the implications were not so serious.

Enhanced lotus-eating

By Michael Cieply

YOU MUST UNDERSTAND THAT Marin has a lot of problems," says Martin Paley, as he picks at his crab cocktail. The trim, tanned director of the San Francisco Foundation is fighting a lonely crusade these days, trying to convince a mounting corps of doubters that Marin County, just north of California's Golden Gate, is a charity case.

The county is among the richest in the U.S., with 223,000 inhabitants—many of them executives who commute to work in San Francisco. Mean family income is nearly \$30,000; average homes sell for \$170,000. Most of Marin's 528-square-mile area is kept from development by greenbelt regulation.

And yet it is in that affluent suburban county that Paley, 52, a former health-care consultant with Arthur D. Little Inc., must find ways to disperse \$23 million a year. That's the income from the \$260 million Buck Trust, set up to "provide care for the needy" in Marin County.

The trust was the bequest of Beryl Buck, a childless widow who died in 1975 leaving less than \$10 million in shares of Belridge Oil to the well-established San Francisco Foundation, which administers a number of charitable legacies in the Bay Area. But in 1979 Shell Oil paid \$3.65 billion for Belridge, ballooning the trust's assets and making Paley's foundation the U.S.' 11th-largest in income, just below the Duke Endowment.

How to spend \$23 million—roughly 1% of total U.S. foundation payouts—in a place that by ordinary standards doesn't need it? Paley has been nothing if not innovative. Among the causes he has funded since 1980:

Chitresh Das Dance Co. \$15,000 to

increase public appreciation of Kathak dance.

Healing the Earth. \$24,000 to support the Bolinas Community Bio-Dynamic/French Intensive Garden School.

Art Zone. \$12,010 for a comprehensive demographic survey of Sausalito's arty houseboat community.

As for more conventional problems, Buck has allotted \$2.2 million for renovation of tattered residential zones



Buck Trust administrator Martin Paley
"Mission: Enhance creativity."

in Marin City and San Rafael, the county seat. It has also launched a reverse annuity mortgage program to help the elderly wring income from dormant home equity, and has backed a host of crisis and counseling centers—such as the Center for Attitudinal Healing and the Family Connection of Belvedere—aimed squarely at the complexities of middle-class life. Mercifully, the torrential rains that battered Marin County this winter provided another vent for Buck largess: The trust spent \$6.5 million to help mud-stricken homeowners match funds with federal emergency loans. In all, the trust has funded nearly 75% of the proposals received—an astounding record, considering foundations such as Guggenheim and Rockefeller grant money to approximately 8% of their applicants.

Paley has been less forthcoming to

some petitioners. He flatly rejected local government requests to replace state and federal funds lost through budget cuts and tax reforms. Through November 1981 the trust had given county officials \$1.6 million, against \$18.3 million in total proposals.

Why? As Paley sees it, "Our mission is to enhance creativity." And that means, he says, "We're not interested if they want money to keep a library branch open additional hours. But if they want to consider new computer applications in handling their collections, we can talk." Meanwhile the trust authorized \$400,000 for the local bird observatory.

Such attitudes, as well as the enormous assets involved, are attracting groups from around the San Francisco Bay Area seeking to break the trust on the grounds of *cy pres*, a legal doctrine stating that a bequest may be altered when circumstances change sufficiently to bar its performance. "It's a perversion of philanthropy," says Bob Gnaizda of Public Advocates, Inc., an attorney for the objectors. Gnaizda wants to see Buck funds spent in other Bay Area communities for such purposes as health care and low-cost housing. And he may receive support from the California Attorney General George Deukmejian, who has begun to monitor Buck for signs of a sinister condition called "charitable saturation." If the money threatens to do Marin more harm than good, the Attorney General's office will move to let outsiders in on the Buck bonanza.

The issue, although Paley—remaining as cool as his lunchtime white wine—denies it, is what the community at large considers worthwhile use of the money. If Buck Trust were to set up in Marin County a medical research facility, akin to New York's Rockefeller University, the specter of court action would probably dissipate. Instead, says Paley vaguely, the new idea of his administrators is to spend \$6.4 million for 3,265 acres in rural west Marin to house projects like "maybe a community center."

Activist lawyer Gnaizda, on the other hand, is not vague at all. If the court allows his group to intervene on Buck, he says, the precedent could lead to greater public scrutiny of such private foundations as "Kresge, Rockefeller, Ford, you name it." Thus, how Paley dispenses the Buck Trust money could have important implications for philanthropy in general. Perhaps Kresge, Rockefeller, Ford et al. should lend some better ideas to Buck before it's too late. ■

Faces Behind The Figures

Edited by Barbara Ettore

A little "bloody"

Alfred Sanguinetti, who retires at 53 next month as head of Levi Strauss & Co.'s domestic operations, has a name that suits his situation. His last name means "little bloody" in Italian, and that surely describes Sanguinetti as he prepares to leave San Francisco-based Levi. In the last 16 months he suffered a paper loss approaching \$6 million on his 200,300 Levi shares as the company's stock dropped from a record 50¼ in March 1981 to about 22 last month.

Sanguinetti's departure is sudden—he has held the title only six months—and it comes at a time when Levi Strauss itself is a little bloody.



Alfred Sanguinetti of Levi Strauss & Co.
Thirty-six years was enough.

Earnings of the jeans giant (1981 sales, \$2.8 billion) in the first half of 1982 are 51% below the first half of 1981. Profits for all of 1981 (\$172 million) were 23% below 1980's. The fact that he was passed over for the position in 1980 and got it only after his predecessor suffered a stroke, Sanguinetti insists, had nothing to do with his decision to pack it all in. "Thirty-six years is enough, okay?" he says. "Sure, the company is facing some difficult times. But, when hasn't it? Even in the boom years in 1974, 1976 and 1977, we had difficult times because we never had enough product."

Levi and Sanguinetti have tangled

more than once. The son of Italian immigrants, Sanguinetti joined Levi's shipping department out of high school in 1946; sales then were \$6 million. He worked his way up, gaining a reputation as a tough-minded manager. As Levi's first quality-control manager in 1967, he shut down a plant for ten days, idling 200 workers, because its quality wasn't up to snuff. As general manager of the jeanswear division from 1971 to 1978, he drove up sales from \$180 million to over \$700 million. Behind Levi's recent decision finally to sell to giants and discounters like Sears and J.C. Penney was Sanguinetti, who had pushed the idea for seven years.

Sanguinetti will remain a part-time consultant at Levi. Meanwhile, he tends his 2½-acre vineyard in Portola Valley, producing Chateau Sanguinetti, a robust Zinfandel. "I shaved the hills and I took out the poison oak roots," he says. "I chopped away at the greenwood and I leveled it. It's mine and I want to take care of it now."—John A. Byrne

The lighter side

Bob Galey's idea of a good time is to go down to the mailroom of the Zippo Manufacturing Co. in Bradford, Penna. and watch the mailbags carrying another 1,200 or so repaired or replaced Zippo lighters being shipped out at no charge. It happens every weekday afternoon. That's 300,000 lighters a year. Says Galey, Zippo's president, "It doesn't make any difference if the customer is a World War II GI returning a 40-year-old Zippo for a new hinge or a wholesaler returning a 100,000-piece order because the order was wrong. They are made happy."



Zippo's Bob Galey
Profits to burn.

The privately held company is celebrating its 50th year in business, and Galey—who has been with Zippo for 37 years—says he expects yet another annual increase in unit sales. The firm sold about 6 million lighters last year and had revenues of about \$26 million. Dollar sales have increased, on average, between 5% and 10% a year for as long as anyone can remember, says Galey, while unit sales have gone up 2% to 3% per year. There was, however, one down year: 1964, when the first Surgeon General's report on smoking appeared.

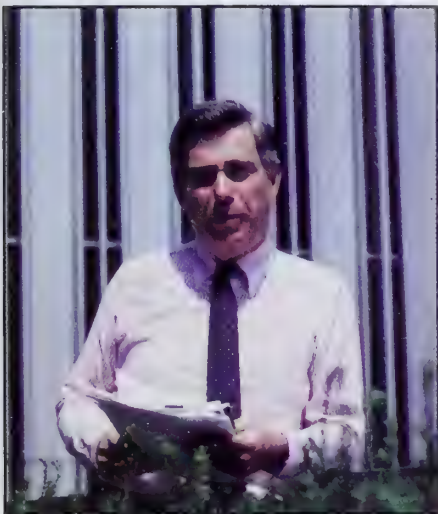
Galey said the company has no plans to go public. Nor do the owners—the two daughters of founder George Blaisdell—plan to sell out. Galey won't discuss profitability ("We make a buck every day"), but the Bic Corp., which makes pens and disposable lighters, has a pretax margin of about 13%, and it would be surprising if Zippo's were smaller than that. This would mean the owners divided more than \$3 million before taxes in 1981. As Galey puts it: "The people who own this company are not dumb. They don't want to sell out because they can't get a greater return on their money anyplace else."

Zippo has weathered onslaughts such as that in 1956, when the Japanese shipped 58 million cheap Zippo look-alikes to the U.S. (They would barely light in the wind—a Zippo trademark.) The company has also survived the disposable lighters introduced by Bic and Gillette. Apparently, says Galey, a Zippo competitor is, of all things, wallets. Eighty percent of Zippos are bought as men's gifts at \$6.50 each, about what people pay for an inexpensive wallet. Who, he says, would want to give an 89-cent lighter as a gift?

Zippo has not only survived competition from Japan but is making converts there. Collecting Zippos has be-

come a popular Japanese hobby—big enough to support a fan club and newsletter out of Tokyo. The lighters the Japanese collectors want the most are those with company names or logos on them. Some 25% of Zippo's production is in such advertising specialties. Galey says he now orders intentional overruns on every company order.—Stanley W. Angrist

Nerves of steel



Cyclops Corp. President W.H. Knoell
Never mind where the crowd is going.

National Steel has closed its big Weirton, W.Va. steelworks. U.S. Steel Corp. has closed its Alabama plant. McLouth Steel is going broke. The whole industry is losing money, yet Pittsburgh-based Cyclops Corp. (1981 sales, \$1 billion) wants to buy the Crucible Stainless & Alloy division of Colt Industries—which has been losing money and which Colt says it wants to sell or close down. Why?

The answer, says Cyclops President W.H. Knoell, is the neat fit between parts of the two companies' businesses in stainless and alloy steels. His idea is to rationalize production so as to load the plants more efficiently, Cyclops to concentrate on narrow stainless steel strip, Crucible on wider sheet.

"There are occasions when it makes sense not to follow the crowd," says Knoell, 57, who came to Cyclops in the mid-Sixties (he has been CEO since 1973) from Crucible, where he was vice president. "There are occasions when two plus two is more than four. This may be such an occasion." He cited a similar situation in the merger of Jones & Laughlin and Youngstown Sheet & Tube: "As a result of being able to rationalize production, instead of two weak entities ending up in one weak entity, both

got strength from the merger."

Book value of the Crucible assets is \$131 million, and Knoell would not say how much he's willing to pay or in what form he would pay it. The Cyclops-Crucible deal is still only one in principle, and details remain to be worked out. In essence, it all turns on the United Steelworkers. Will they agree to this "swapping" of work and will they accept that not all of the over 4,000 jobs at Crucible can be saved? It is a matter of making the best bits of Crucible profitable and the jobs that go with them safe ones. Or of seeing all the jobs go.

Meanwhile, Crucible lost heavily last year on sales of \$500 million, and first-quarter losses were \$11.5 million. Closing costs are said to run about \$175 million in pension and severance compensation. Knoell, however, is trusting to his own brand of arithmetic.—Howard Banks

A blast from the past

John Glenn is a U.S. Senator. Frank Borman heads Eastern Airlines. Edwin (Buzz) Aldrin is an oil company consultant. Alan Shepard Jr. runs a Houston beer distributorship. But Apollo-Soyuz pilot Donald (Deke) Slayton is sticking closer to his astronaut roots.

Slayton, 58, retired in March as flight test manager after 24 years at NASA to become vice chairman of Space Services Inc., a Houston-based company that hopes to build a business out of launching commercial payloads into space. This is the same company whose first rocket, a liquid-fuel model made from off-the-shelf parts, blew up in a test last summer on Texas' Matagorda Island, costing Space Services some \$1.2 million.

Space Service Inc.'s Donald (Deke) Slayton

Okay, the wheel's been invented. Now what?



"They were trying to reinvent the wheel," says Slayton, surrounded by rocket parts and space memorabilia in his new office across the street from NASA's Johnson Space Center. He now plans to buy his launch vehicles, solid-fuel rockets (at \$4 million each), from Space Vector, a subsidiary of New York-based City Investing Co.

For starters, he is aiming at the low-budget rocket business: lightweight, low-orbit satellites to collect data for oil exploration and weather forecasting. Later, the company hopes to boost itself into high-orbit communications satellites, where the demand is stronger, the payloads heavier and, presumably, the payoff bigger. They will compete with NASA and the European Space Agency's Ariane system. "Ariane expects to be picking up 25% to 30% of NASA's market," Slayton says, "and they'll probably get more than that if nobody like us does anything."

Bankrolling Space Services are 20 investors, led by Chairman David Hannah Jr., 60, a Houston real estate tycoon. "The market we are trying to develop takes a sales pitch, and the government does not have one," says Hannah. Hence, Slayton, who is both technical adviser and launch site negotiator. (He is now haggling to lease 5.7 acres in Hawaii and the right to clear cows and farmers from the site during a launch.) Hannah figures it will take \$30 million to get Space Services off the ground. The investors have raised \$6.2 million thus far and have already spent \$4 million. Slayton (who gets no pay as yet, only stock) says he isn't worried. "We won't have a profitable business until 1986 or 1987," he says. "But I'm not looking for a lot of security. I'm looking for something interesting to do."—Jessica Greenbaum

Faces Behind the Figures

Coal comfort

"Everything gets renegotiated in this world," says George Rifakes. He should know: As vice president of fuel procurement at Chicago's \$3.7 billion Commonwealth Edison Co., Rifakes recently saved the utility some \$20 million this year alone by renegotiating four coal contracts.

Rifakes says he spent 16-hour days and weekends during the last month getting tough with three coal companies near the Powder River Basin in Montana and Wyoming. The companies were holding 10-to-20-year ComEd contracts negotiated beginning in 1973 and worth potentially \$260 million for 13 million tons of coal annually, at about \$20 a ton. They were taking ComEd to court for refusing delivery of some 1.3 million



ComEd's George Rifakes

"Everything gets renegotiated in this world."

tons last year on those contracts. Rifakes, meanwhile, was invoking the *force majeure* clause in the contracts, citing weather and other factors as beyond ComEd's control. He had the current coal glut on his side, and the companies settled out of court in June.

Under the renegotiated contracts, ComEd pays 70% of the value of the coal it is obligated to buy each year, but the coal remains in the ground. The mine owners don't have to pay mining costs. "It doesn't hurt earnings," Rifakes explains, "because we bought an asset. We've got a credit and a debit: coal and cash. That's what shows on the balance sheet. It's a prepayment." The rest will come

due when the coal is mined—some time in the next five years. "The reason we saved \$20 million this year is we're not paying the railroads \$20 a ton to haul that coal," says Rifakes, 48, who has been responsible for buying ComEd's fuel since 1968.

How did ComEd get into long-term coal contracts in the first place? After 1968, when Chicago outlawed the burning of high-sulfur Illinois coal,

Paramount Chairman Barry Diller

Now comes the hard part.



Gamesmanship

"The hard part is the creative part, the ability to come up with ideas—and in the end that's really the thing that will win in this business," says Barry Diller, chairman of Paramount Pictures Corp. Diller is *not* talking about the movie business, though. Last month Paramount (as well as three

other major Hollywood studios) announced its entrance into the home video game market.

It's not an entirely unknown game for Paramount. Along with other film companies, Paramount sees excellent video game spinoff potential from its movies—for starters, *Star Trek*, from which Paramount hopes to get a series of games, beginning in 1983. The games will be distributed through Paramount's subsidiary, Sega Distribution, already a considerable force in coin-operated amusement arcades.

"We're really lucky that a subsidiary was already in one part of the business," says Diller, 40. Sega Inc. and Paramount have also entered into a joint activity with Coleco Industries, the toymaker, to make and distribute video games to the home market. In all, Sega will distribute seven video games this year, four licensed to Coleco and three of Sega's coin-operated arcade games. "We got lucky because Coleco had a need, and we had a need, and we met each other exactly at the right moment," says Diller.

Sega is one of the largest distributors and manufacturers of coin-operated games in Japan, and Diller says Paramount plans to take advantage of that. "Over the next couple of years, we will build market share," he muses. "Once we do that, I'll be happy to compete with everybody—just like in motion pictures."—Ellen Paris

ComEd needed low-sulfur western coal. Companies opened their mines only after long-term ComEd commitments were made. The original contracts were keyed to ComEd's 7% annual growth rate projections. But ComEd's sales haven't grown at that rate since 1973, and actually sank 1.5% last year, thanks to mild weather and a slow economy.

ComEd also has the option to make more five-year deferrals from 1981 through 1985. Rifakes says he hopes the option will take care of the oversupply. "But if the Midwest industrial output continues to slide, it may not have taken care of the matter," he adds ominously.—Lisa Gross

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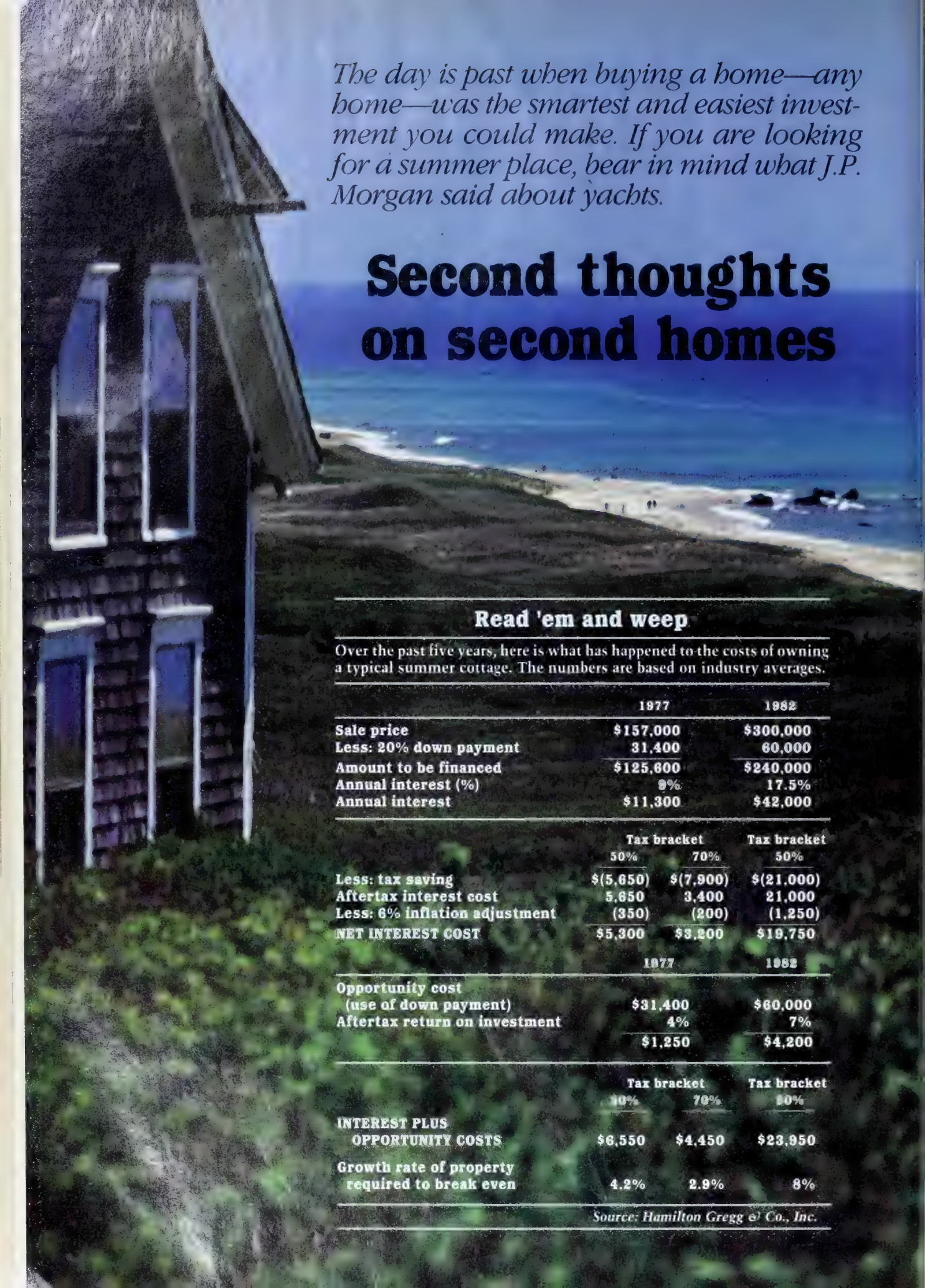
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The day is past when buying a home—any home—was the smartest and easiest investment you could make. If you are looking for a summer place, bear in mind what J.P. Morgan said about yachts.

Second thoughts on second homes

Read 'em and weep

Over the past five years, here is what has happened to the costs of owning a typical summer cottage. The numbers are based on industry averages.

	1977	1982
Sale price	\$157,000	\$300,000
Less: 20% down payment	31,400	60,000
Amount to be financed	\$125,600	\$240,000
Annual interest (%)	9%	17.5%
Annual interest	\$11,300	\$42,000

	Tax bracket		Tax bracket
	50%	70%	50%
Less: tax saving	\$(5,850)	\$(7,900)	\$(21,000)
Aftertax interest cost	5,850	3,400	21,000
Less: 6% inflation adjustment	(350)	(200)	(1,250)
NET INTEREST COST	\$5,300	\$3,200	\$19,750

	1977	1982
Opportunity cost (use of down payment)	\$31,400	\$60,000
Aftertax return on investment	4%	7%
	\$1,250	\$4,200

	Tax bracket		Tax bracket
	50%	70%	50%
INTEREST PLUS OPPORTUNITY COSTS	\$6,550	\$4,450	\$23,950
Growth rate of property required to break even	4.2%	2.9%	8%

Source: Hamilton Gregg & Co., Inc.

Personal Affairs

Edited by William G. Flanagan

My friends in East Hampton, Long Island may never speak to me again, but here goes anyway: It is sheer economic folly to buy a vacation home these days.

Conventional wisdom has long been that the right vacation home would always appreciate each year more than it cost to own, making it an inflation hedge with a plus—you had a place to enjoy. And, you could always rent it some of the time to defray some costs of ownership, or to get extra cash for improvements, thereby increasing your equity in the property.

Well, so much for conventional wisdom. For today, astronomical interest rates on home mortgages, a slowdown in annual appreciation of home prices (in many cases, an actual decrease), a shrinking market of vacation buyers and renters and the emergence of many safe, inflation-beating investments have changed the ball game. If you want a vacation home solely for personal use you should approach it the way J.P. Morgan did yachts: If you have to ask the real cost, you can't afford it.

One East Hampton vacation homeowner, for example, recently figured out that each day he stays in his new \$300,000 home costs him \$370. And he makes frequent use of his house—about 80 days a year, much more than average. (That includes 30 weekends each year and his three-week vacation.) Costs include mortgage interest (an aftertax \$19,200 based on a 17.5% mortgage loan of \$240,000), \$4,200 in opportunity cost (assuming a 7% aftertax return on the \$60,000 down payment on the house) plus \$5,700 in fuel, utilities, insurance, net taxes and insurance. Thus his annual tab—even after tax offsets—is \$29,600 for the joys of owning a “cottage.”

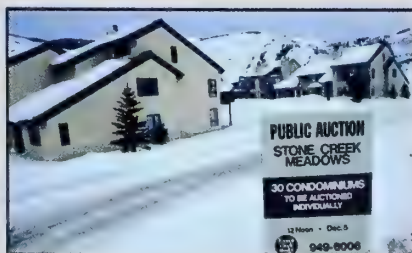
How could such numbers be possible? What happened to the myth that all homes were the lazy investor's best friend?

Three things happened, according to Hamilton Gregg & Co., Inc., financial planners. First, mortgage interest rates went crazy in the last five years, rising from an average of 9% to an average of 17.5%. Second, home prices skyrocketed an average of

13.8% a year over the same period. Third, inflation has finally slowed to a crawl, while interest paid on hard cash continues to soar.

Add to these basics higher taxes, fuel and utility costs, and the formula that made you a smart guy in 1977 could very well make you an idiot in 1982 (see table opposite).

Let's take a closer look at how the math works out now, so brace yourself. Let's take the house in East Hampton. In 1977 it would have cost \$157,000 (that assumes average appreciation since then). With 20% down (\$31,400) you would have had to finance about \$125,000 at 9%, costing \$11,300 a year. In the 50% tax bracket your aftertax interest cost would have come to \$5,650. In the 70% bracket your aftertax interest expense would have come to \$3,400. If you make an inflation adjustment of about 6%, your net interest cost would have



Condos awaiting buyers at Eagle-Vail
Sheer economic folly?

been \$5,300 or \$3,200, depending upon your tax bracket.

Then there is the opportunity cost—the money you lost by not investing the down payment somewhere else. In 1977 your \$31,400 down payment easily could have netted an aftertax return of \$1,250 a year. So your total cost of interest plus opportunity cost would have been \$6,550 annually for the 50% taxpayer, \$4,450 for the owner in the 70% bracket (fortunately now eliminated).

The annual growth rate in value required to break even amounted to 4.2% for the 50% taxpayer, only 2.9% for the 70% taxpayer. As we have seen, appreciation averaged 13.8% from 1977 to 1982, so buying the vacation home then could have been a very reasonable investment.

Now let's look at the world of today. And note: In the following computations, insurance, maintenance, fuel, utilities, mortgage amortization and real estate taxes are *not* included.

Going back to the table, we see that the sale price of the East Hampton home is now \$300,000, requiring \$60,000 down for a \$240,000 mortgage at 17.5%. Thus the annual interest comes to \$42,000. Tax savings are

\$21,000, and allowing for an approximate 6% inflation adjustment, your net cost comes to \$19,750.

Thus, while in 1977 your annual net interest cost was only \$3,000 to \$5,000, in 1982 it is 4 to 6 times that much, depending on your tax bracket.

Now let's add the opportunity cost. Your \$60,000 down payment, if invested elsewhere—municipal bonds, for example—could easily generate a 7% aftertax return, or \$4,200 a year. So your *net* costs—interest plus the lost return—comes to \$23,950. Remember, we are still not adding any other costs. Just to break even, the property would have to appreciate 8% a year. That would have been a snap in 1977, but not now, when the prices of both new and existing homes are increasing only 4% to 5%. And that doesn't reflect the “creative financing” schemes that are the order of the day—such options as taking back a discounted mortgage, for example. These may be useful in moving houses—the National Association of Realtors estimates that 70% of all home sales now involve some sort of creative financing—but they often result in a net depreciation in prices.

Let's assume that this situation is temporary, that interest rates will come down somewhat in the years ahead, and that, on average, your vacation home appreciates an average of 6% a year. In ten years, your home will then be worth \$540,000. (And remember, the equity gain is taxable.) But suppose you decide not to buy now, and simply invest your \$60,000. At 7% aftertax, your nest egg will have grown to \$118,000—more than enough to cover the down payment on the same house, were you to buy it in 1992.

But here's the killer. Remember, you are spending \$19,750 in net interest. If you invest *that* amount each year for a decade, at 7% aftertax it will amount to another \$292,000. At 10% aftertax, it will amount to \$346,000. Thus, your aftertax nest egg will be a total of at least \$410,000. If investment is an important motive in the vacation home, the case rests.

What about possible rental income, you ask? The picture gets a lot cloudier, of course. Remember, there are three ways you can rent your vacation home, as far as the IRS is concerned. First, you can rent the house for two weeks or less each year, and you can pocket the cash and pay no tax on that income. (On the other hand, you cannot deduct expenses such as depreciation and maintenance, although taxes and interest are deductible, of course.) Second, you can rent the house almost all the time—reserving

Personal Affairs

the house for yourself just two weeks, or 10% of the time the house is rented to others, whichever is greater. In that case you *can* deduct maintenance, depreciation, etc.—but you must also declare your rental income.

The third option is to rent some of the time and use the house some of the time. The computations—and the IRS rules—get tricky here. But the bottom line in all cases is this: Owning a vacation home is a very expensive way to take a vacation.

(Note: For a full explanation of how to figure your real costs if you plan to rent some or most of the time, see the March-June issue of *The Journal of Investing*. For a copy of *Vacation Real Estate*, send \$1.00 to Barry Goodman, Leopold & Linowes, Suite 350, 1120 Connecticut Ave. NW, Washington, D.C. 20036.—W.G.F.)

Settling a beef with the broker

Ever had a real fight with your broker? Let's say you are long on a stock on a margin of 40%. The stock slips, the broker makes a margin call. He tries to contact you but you are away. So he sells you out. Do you have a leg to stand on?

Or let's say you have a margin account for commodities trading, and your broker switches it to a commodity with a higher margin. When you fail to meet the margin, the broker sells. Have you any redress? Should you go out and get a lawyer?

Not necessarily. It's a rare investor who has not suffered through problems with a broker, and as a result the securities industry has developed a number of relatively cheap and quick procedures to settle such matters before they get into court.

If you have confronted the broker, his boss and the firm's public relations or compliance division without satisfaction, call the appropriate stock exchange. Says William Belcher, who runs the New York Stock Exchange's Investor-Broker Liaison section, "If we can't resolve it we'll take it to the member firm. We try to give them a chance to explain." (Note: At the NYSE complaints should be written—"Just so we don't misunderstand

it," Belcher says.)

If the complaint still isn't resolved, the exchange may advise arbitration. Most firms have an arbitration clause in their customer agreements. At Shearson/American Express, for example, the agreement says that "any controversy arising out of or relating to my accounts" can be settled at arbitration organized by the NYSE, Amex or National Association of Securities Dealers. Other agreements may include the American Arbitration Association (AAA), for those who fear that arbitration arranged by the exchanges would be biased.

In 1981, 475 claims were filed with the NYSE, 124 with the AAA, 422 with NASD, over 70 with Amex. And cases are increasing.

Arbitration works something like small claims court. "It's less formal than a court," says Robert Meade, a vice president at the AAA, "but it's



still orderly." The emphasis is on flexibility. Both the exchanges and the AAA hold arbitrations throughout the country. Panel members—usually one to arbitrate a claim of \$2,500 or less, three for a claim between \$2,500 and \$100,000, five for claims over \$100,000—are chosen from both the industry and the public. Hearings are usually held during the workweek and last for several hours.

The process can be simple. The customer submits a claim; the firm is asked to respond. Evidence such as order slips or transaction records is gathered and a panel is chosen. The AAA, for example, can choose from several thousand names in its computerized pool of arbitrators. Just as in jury selection, names can be challenged. At the arbitration, the participants gather around a conference table and present their cases. The arbitrators can ask questions and request evidence. Several weeks after the hearing, they announce the award.

What's the advantage? First, you don't always need a lawyer, although

in larger cases you should retain one to organize and present information. Second, an arbitration is usually decided within six months from submission of claim to announcement of award. Third, it relieves frustrations. Everyone gets a chance to present his case. "The industry likes it because there's a great deal less animosity than if it were to drag through the courts," says Meade.

One disadvantage: There's no appeal of an arbitration award, unless you can prove that the panel had a conflict of interest, withheld evidence or showed reckless disregard for the law.

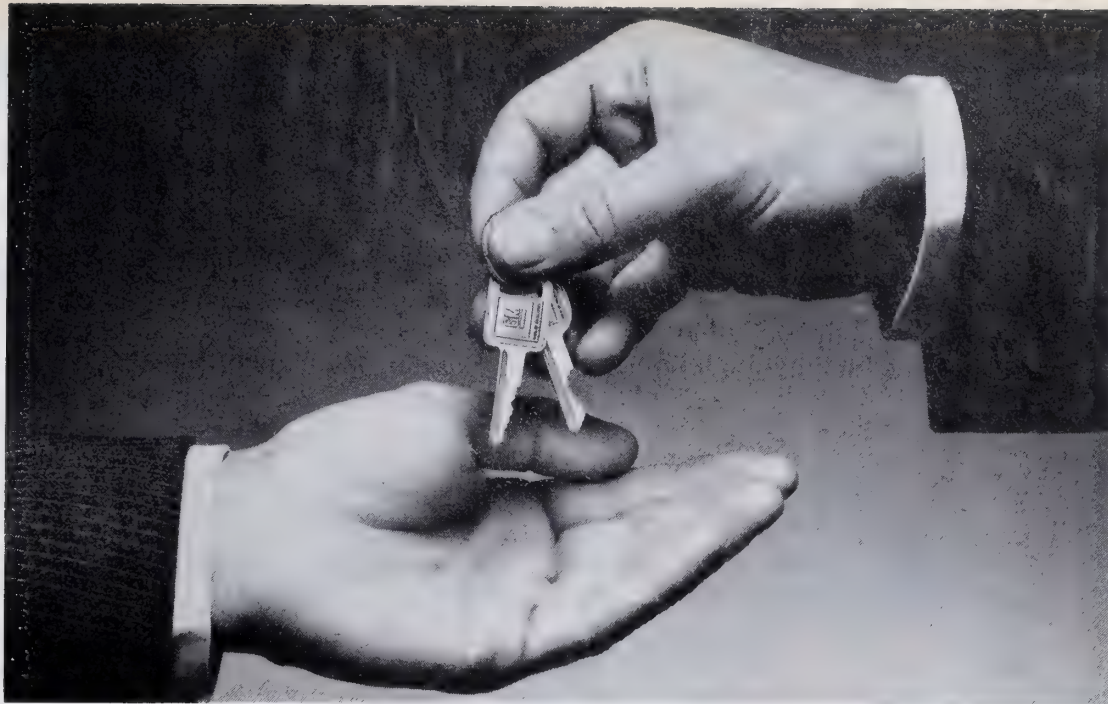
To start an arbitration, call or write the arbitration divisions of a major stock exchange or the AAA (140 W. 51st St., New York, N.Y. 10020), depending on your customer agreement. They will send you information and claim forms. An escalating fee is required—from \$15 for a small claim to over \$500 for one over \$100,000. "The fee keeps the claims realistic," says Meade. "You rarely see anybody asking for \$25 million in damages."

There are some simple guidelines for filing a claim. David Kaufmann, arbitration director of Amex, advises claimants to tell their story in narrative form, "as if they were writing a newspaper piece. Refer to correspondence and records, then staple them to the claim. Show and tell about them." He warns not to withhold evidence in the hopes of springing a Perry Mason-like surprise because the panel needs the full claim to prepare questions.

How did the cases at the beginning of this article turn out? The customer who was sold out after failing to make a margin call should have read the fine print of his agreement. The arbitration panel decided the broker was within his right to sell because he made repeated efforts to contact the customer by telephone and cable.

In the commodity case, the arbitrator ruled the broker shouldn't have moved the account, and the customer was awarded the money lost plus the cost of traveling to New York City.

If you have a beef over a commodity transaction, the complaints section of the Commodity Futures Trading Commission (2033 K St. N.W., Washington, D.C. 20581) can send forms for filing a complaint. You may want to go through their "reparations" program—something like arbitration but it is held before one of the CFTC's five administrative law judges. If the claim is below \$100,000, you can probably handle it without a lawyer, though the process often takes longer than arbitration.—Robert Teitelman



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"We continue to seek opportunities for further expansion."

Extracts from the statement of the Chairman of Heron International, Gerald M Ronson.



**INCOME BEFORE TAXATION INCREASED TO
\$26 MILLION**
**STOCKHOLDERS' EQUITY INCREASED TO
\$328 MILLION**
**AVAILABLE FINANCIAL RESOURCES
\$183 MILLION**

A Year of Progress

Once more we have had a year of progress and I am pleased to be able to report increases in both profit and stockholders' equity, continuing our unbroken record of growth.

Income before taxation for the year increased to \$26 million and stockholders' equity increased to \$328 million. We are pleased with these results which justify the efforts of all those concerned.

Consolidation of Trading Companies

We continue to consolidate the management of our trading companies under Heron Trading Corporation. Since the year end we have acquired the outstanding minority interest in Heron Motor Group and have combined the management team with that of Heron Suzuki. In addition, we have combined the management teams of Heron Service Stations and Ingersoll. This consolidation enables us to maximise the use of our highly professional management. The strength created by the diversity of activities in Heron Trading Corporation has again proved itself and its results must be regarded as satisfactory in one of the most difficult trading periods for some time.

Major city centre development opened

The opening of St. David's Centre, Cardiff, one of the United Kingdom's major covered shopping precincts, was the highlight of Heron Property Corporation's year. We have several major office developments under way which will provide further growth over the next 2-3 years.

Record earnings from insurance

The National Insurance and Guarantee Corporation again produced record

earnings. Although growth in premium income was lower than in the previous year, our policy of only growing where we can see profitable business proved to be right, with our motor account producing an underwriting profit for the year. Unfortunately, our non-motor underwriting was affected by the civil disturbances of last summer and the extremely bad weather conditions in December.

Continued confidence in the United States

High interest rates have held back the progress of our United States subsidiaries, Pima Savings and Western American Financial Corporation. We continue,

led by Barclays Merchant Bank and a \$50 million, 5 year unsecured syndicated loan, led by Hill Samuel and Credit Lyonnais. Both syndicates comprise some of the world's leading banks and we are proud of the confidence they have shown in us. At 31 March, 1982 we had total available financial resources, either in cash or in undrawn bank lines, in excess of \$183 million.

Substantial acquisition

As a result of our available management and financial resources, we are now in a position where we are able to make a substantial acquisition. Our ratio of interest bearing debt to shareholders' funds has reduced substantially over the

FIVE YEAR FINANCIAL HISTORY

Figures in \$000	1982	1981	1980	1979	1978
REVENUES	626,920	538,569	561,230	524,454	472,442
INCOME BEFORE TAXATION	25,924	23,554	19,202	14,638	11,603
STOCKHOLDERS' EQUITY	327,977	236,698	142,193	124,919	107,617

The above figures have been translated at exchange rates prevailing on 31 March 1982.

however, to strengthen our management team and expand the services which we offer, so as to be able to take full advantage of any economic upturn. Hall Properties, in which we own a 50% interest, continues to make good progress and should start to contribute to the group's profits during the current financial year.

Major refinancing

The constant strengthening of our financial position has been reflected by the continued support of our bankers. In the year under review, we concluded two major financings, a £75 million, 10 year unsecured syndicated loan facility,

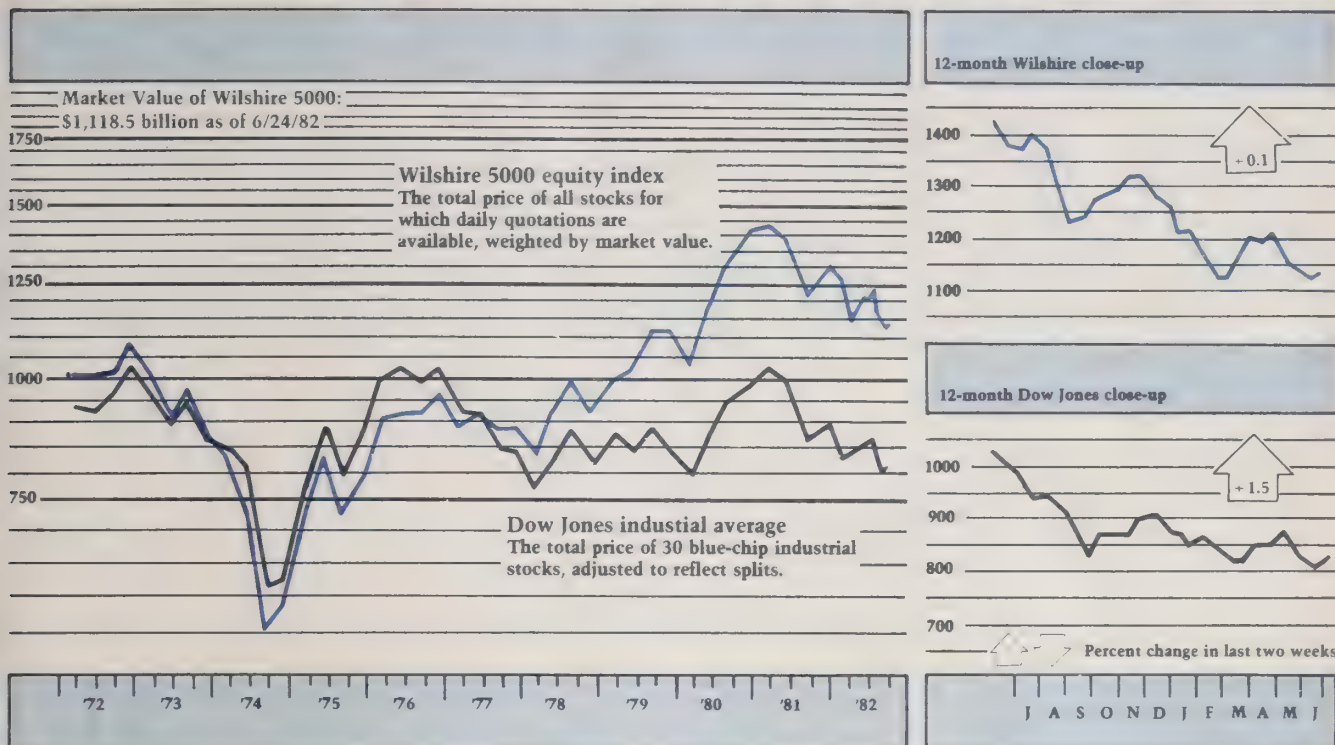
past few years and at the year end after taking into account cash balances of \$108 million stood at 64% giving us much more room for expansion. Our \$88 million bid for Associated Communications Corporation was unsuccessful but we continue actively to look for further opportunities.

Copies of the Report and Accounts are available from The Secretary, Heron International PLC, Heron House, 19 Marylebone Road, London NW1 5JL, England.



Heron International PLC
PROPERTY, INSURANCE, TRADING, FINANCIAL SERVICES

The Forbes/Wilshire 5000 Review



Black and blue. If you choose your indicators carefully, the market was barely in the black over the last two weeks. The Wilshire index, a measure of overall investment activity, is ahead by a mere 0.1%. The 30-stock Dow industrials, meanwhile, shows a 1.5% gain. The NYSE index and the S&P's 500 also eked out 0.2% advances. But Amex and NASDAQ stocks were unable to share in these meager gains. The average American Stock Exchange issue fell by 0.3% and o-t-c stocks lost 0.1%. During the last month the Amex dropped 4.5%, and for the year it is off by 32.2%. On the other hand, the Wilshire shows a 4-week

decline of 2.9% and a 52-week decline of 20%.

Over the last two weeks, all the market focus groups were off more than the market. A close look at the data, however, indicates that investors seem to be selling off more at the market edges, while holding on to middle-of-the-road securities. There was a slightly stronger move, for example, away from more speculative securities, such as high volatility and high P/E stocks, than from their more conservative counterparts. This trend, though it seems to be abating slightly, has persisted for several weeks. It could mark the consolidation phase of a bear-market bottom.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	-2.9	-1.8	-2.7	-4.5	-4.1
in last 52 weeks	-20.0	-18.7	-18.1	-32.2	-22.0

Stock performance based on five key investor yardsticks

Percent change	Volatility*		P/E multiple		Dividend yield		Growth profile†		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	-3.9	-2.3	-5.7	-3.0	-2.4	-2.6	-3.0	-2.1	-3.0	-4.7
in last 52 weeks	-21.4	-1.7	-29.1	-9.5	-4.4	-14.9	-17.9	-8.4	-18.5	-19.1

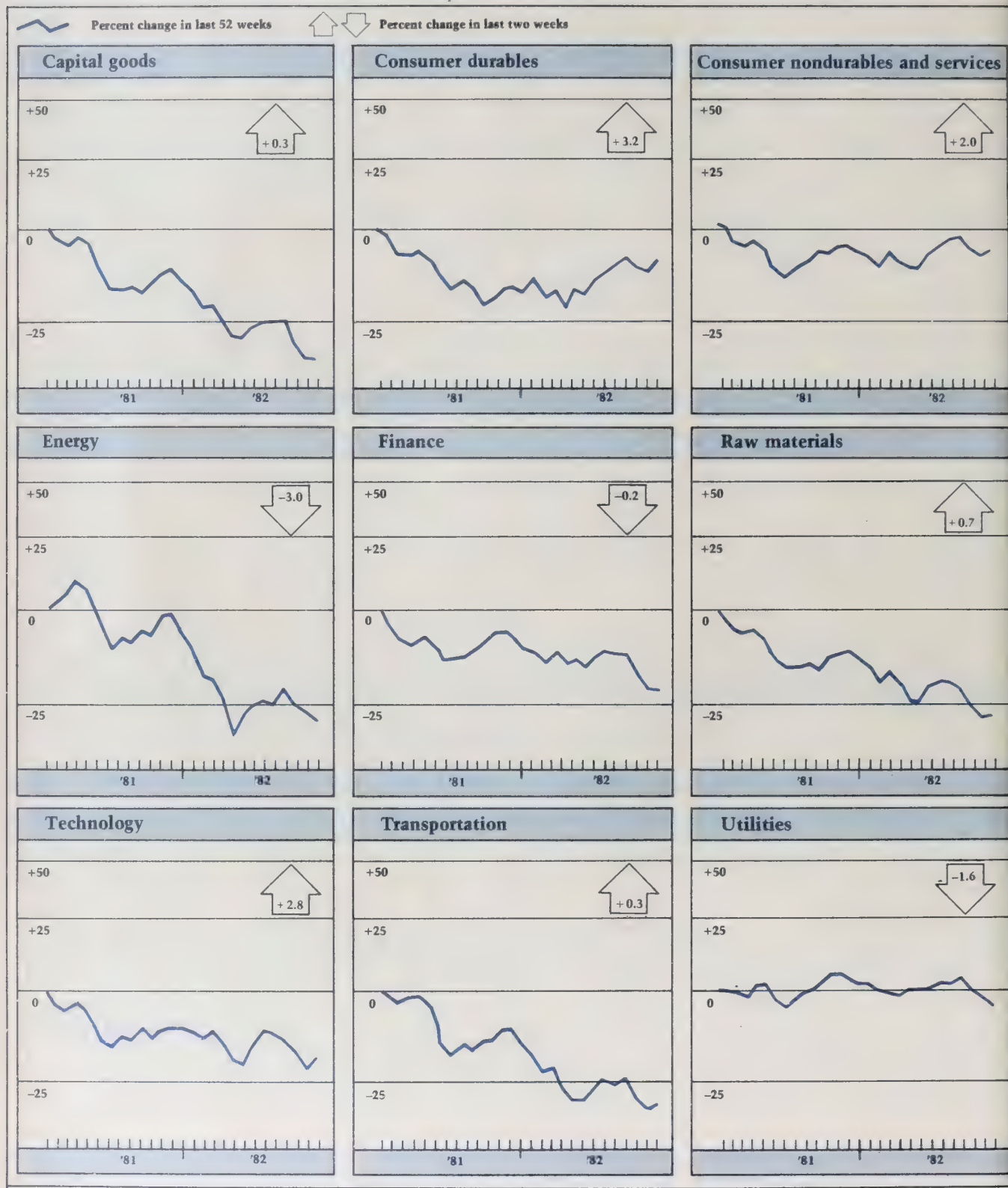
*A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.
†A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 6/24/82. Prepared by Wilshire Associates, Santa Monica, Calif

Where The Action Is

Two bad apples. The market barely made it into the positive territory over the last two weeks, but it wasn't due to poor performance from the technology or consumer sectors. Technology issues advanced 2.8%, while consumer durables were up 3.2%. Consumer nondurables and services, meanwhile, gained 2%. Raw materials, capital goods and transportation stocks all stayed ahead, too, though with gains of less than 1%.

Once again, however, energy stocks helped to drag the averages down. While finance stocks lost 0.2% in the two-week period, greater damage came from the energy sector, which was off 3%. Utility stocks also did their share to hold the market back, with a 1.6% decline. Throughout the winter these defensive issues were a major area of strength. But this group's performance over the last 52 weeks is now several percentage points in the red.



Note: All data for periods ending 6/24/82. Prepared by Wilshire Associates, Santa Monica, Calif.

This announcement is neither an offer to sell nor a solicitation of an offer to buy these securities. The offer is made only by the Offering Circular.



New Issue / June 16, 1982

\$600,000,000

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Statistical Spotlight

Over 1,200 corporations are running in the red. Some will not survive. Some others are bull-market long shots.

Reds II

By Steve Kichen

BACK IN 1980, we put together a list of 90 moneylosing firms under the headline "Red doesn't mean dead" (FORBES, Sept. 29, 1980). Since then, red became dead for many on that list. Others are still alive, but still losing. And a few became superstar performers.

Now, with more than 1,200 U.S. corporations showing red ink, here's a new list of these long, long shots—50 nonfinancial companies that lost at least \$5 million in 1981 on sales of \$50 million or more.

This is no game for the fainthearted. Check the update of the 1980 list on page 103 to see how scary it really is. Of the original 90 firms, 8 have

since filed for bankruptcy. And 15 are repeat performers on the losers list this time. Investors lost 90% or more of their money on Braniff International, Seatrains Lines, Wilson Freight and Combustion Equipment, all now bankrupt. Other companies, such as International Harvester, off 89%, now teeter on the brink. Only 20 stocks gained 25% or more.

The turnaround stars? Soundesign up 172%; M. Lowenstein, up 167%; Sheller-Globe, 104%; American Airlines, 92%. There were also 12 mergers, takeovers or buyouts by management. Elixir Industries, for example, went private, buying out its shareholders at a gain of 142%.

Perhaps the most interesting number of all, though, is what happened to the overall list. An investment of \$1,000 in each of the 90 stocks in 1980 would now total \$82,796, or a decline of 8%—almost exactly the decline in the S&P's over the same period. If a portfolio of down-and-outers can keep pace with the market under less-than-ideal conditions, then what are the prospects for these companies in better times? That's what keeps speculative investors licking their chops. ■

An un-nifty fifty

The 50 firms below—all with sales of over \$50 million—lost a total of \$3.4 billion in 1981, and the red ink continues to flow. No doubt the list contains some of

tomorrow's turnarounds, but it also contains some potential obituary items. Almost all of them are selling at a fraction of book value.

Company/business	Recent price	1981		Earnings per share—		Book value per share	Book/price
		sales (millions)	loss (millions)	latest 12 months	1981		
Ford Motor/automobile	23	\$38,247.1	\$-1,060.1	\$ -8.11	\$ -8.81	\$61.06	2.65
Chrysler/automobile	6½	10,821.6	-475.6	-3.15	-10.31	d	NM
Intl Harvester/agricultural equip	3½	7,040.9	-393.1	-30.19	-8.64	39.76	11.36
Great A&P Tea/grocery stores	6	6,226.8	-231.6	-6.19	-6.19	8.08	1.35
Massey-Ferguson/agricultural equip	1⅞	2,054.1	-151.2	-4.56	-10.71	4.03	2.15
American Motors/automobile	3¼	2,588.9	-136.6	-2.45	-2.44	4.73	1.46
UAL/airline	16½	514.1	-70.5	-6.05	0.91	36.94	2.24
Western Air Lines/airline	5¼	1,059.8	-69.4	-6.21	-5.51	7.59	1.45
Eastern Air Lines/airline	5⅞	3,727.1	-65.9	-5.67	-3.44	13.79	2.45
Continental Air Lines/airline	3⅞	1,090.8	-60.4	-3.75	-3.92	8.50	2.19
KDT Inds/retail	1½	741.4	-52.1	-7.09	-7.09	3.71	2.47
Texas Air/airline	5⅞	719.4	-47.2	-13.17	-8.11	6.73	1.15
Republic Airlines/airline	4⅞	1,448.4	-46.3	-2.63	-1.91	3.28	0.80
Adams Res & Energy/oil & gas	3⅞	234.0	-39.1	-6.54	-6.78	d	NM
Ramada Inns/hotels, casinos	4⅞	415.9	-30.5	-1.45	-1.12	6.03	1.30
Allis-Chalmers/agricultural equip	12½	2,041.8	-28.8	-1.67	-2.86	44.57	3.57
Fuqua Inds/multicompany	16½	706.7	-28.2	-2.00	-2.26	3.15	0.19
Bird & Son/building materials	6½	276.6	-27.1	-7.94	-3.87	18.36	2.82
Centronics Data Comp/computer equip	9⅞	120.8	-24.5	-3.00	-4.08	7.81	0.81
Mesta Machine/machinery	3½	116.2	-24.3	-23.31	-24.60	9.31	2.66
Publicker Inds/distilling	1¼	167.1	-24.0	-2.91	-1.44	5.89	3.37
Pabst Brewing/brewing	20⅞	691.9	-23.5	-2.47	-2.88	29.31	1.44
MacMillan Bloedel/paper & forest prods	15	1,715.2	-20.7	-2.34	-1.51	26.37	1.76
World Airways/airline	2⅞	371.0	-20.2	-3.08	-2.06	NA	NA
Gen Refractories/firebrick for steel ind	3	409.8	-19.0	-5.55	-5.01	22.04	7.35

d Deficit NA Not available NM Not meaningful

Sources: Wulshere Associates, Standard & Poor's, FORBES

Company/business	Recent price	1981		Earnings per share		Book value per share	Book/price
		sales (millions)	loss (millions)	latest 12 months	1981		
Pan Am World Airways/airline	3 1/2	\$3,797.3	\$-18.9	\$-3.57	\$-3.70	\$11.05	3.16
Outlet Co/broadcasting	29 1/4	75.9	-18.0	-5.91	-6.76	d	NM
Filmways/entertainment	5 3/8	94.6	-16.7	-2.59	-2.59	NA	NA
Tiger Intl/airline	7 1/2	1,673.4	-16.6	-3.03	-0.98	19.17	2.56
Alpha Portland Inds/cement	12 1/2	246.7	-16.3	-9.31	-9.31	22.25	1.78
Toro/appliances	5 1/4	247.1	-13.1	-2.69	-2.66	9.71	1.69
Shapell Inds/building	21	180.3	-11.6	-7.28	-5.89	52.08	2.48
Certain-teed/building materials	10 3/8	891.5	-10.9	-1.82	-1.14	19.67	1.81
Pantry Pride/grocery stores	4 3/4	1,225.3	-10.6	-1.89	-1.39	d	NM
Rath Packing/food processing	7 1/8	465.4	-9.6	-3.32	-4.93	d	NM
Lamson & Sessions/railroad equip, auto pts	3 1/4	216.0	-9.0	-2.35	-1.71	8.64	2.66
Hudson Bay Mng & Smltg/metals, oil & gas	10 7/8	326.0	-8.4	-2.74	-0.82	24.23	2.23
Recognition Equip/information process sys	4 1/4	131.5	-8.2	-3.89	-1.34	8.79	2.07
Kay Corp/import & exp, retail jewelry	9 1/4	644.3	-7.7	-2.52	-2.16	6.91	0.75
Munsingwear/apparel	13	131.2	-6.3	-4.25	-2.71	21.24	1.63
United Merchants & Mfrs/apparel	5 7/8	669.6	-6.3	-2.75	-1.71	9.66	1.64
Basco/specialty retail	4 1/2	130.7	-6.2	-6.81	-6.38	1.79	0.40
McIntyre Mines/coal	20 1/4	108.9	-6.1	-4.84	0.02	61.92	3.06
Driver Harris/metals	8 3/4	70.0	-6.0	-9.41	-10.23	NA	NA
Edward Hines Lumber/building materials	17 1/2	264.9	-5.8	-6.48	-3.30	40.95	2.34
Instrument Systems/electronics, hardware	1 3/4	114.0	-5.6	-2.22	-1.67	1.88	1.37
Wurlitzer/musical instruments	3 3/4	74.4	-5.5	-3.10	-3.10	12.53	3.34
Fedders/climate-control equip	3 3/8	156.8	-5.4	-1.66	-0.66	d	NM
Roblin Inds/building materials	1 1/4	110.7	-5.4	-3.33	-2.24	1.41	1.13
Superscope/consumer electronics	2 3/8	56.2	-5.2	-2.33	-2.27	7.73	3.25

d. Deficit NA: Not available NM: Not meaningful

Sources: Wilshire Associates, Standard & Poor's, FORBES

Ashes and diamonds

Here's what happened to the stock prices of FORBES' first "Red isn't dead" list of 90 moneylosing companies September 1980.

Company	% change in price	Company	% change in price	Company	% change in price
American Airlines	92%	Fotomat	-33%	Roblin Industries	-78%
American Biltrite	5	Gateway Transportation ²	37	Ronson	-24
American Motors	-40	Gino's ²	71	Salem Carpet Mills	-25
Arctic Enterprises ¹	-50	Goldblatt Brothers ¹	-89	Sambo's Restaurants ¹	-67
Bibb	45	Great A&P	-10	F&M Schaefer ²	56
Bobbie Brooks ¹	-66	Hayes-Albion	-35	Seatrains Lines ¹	-96
Braniff Intl ¹	-90	Edward Hines Lumber	6	Sheller-Globe	104
Cagle's	-48	Instrument Systems ⁴	-85	Soundesign ²	172
Champion Home Bldrs	120	Intl Foodservice ²	-64	Spector Industries ^{2,5}	-80
Chrysler	-28	Intl Harvester	-89	Standard Products	15
City Stores	-27	Itel ¹	-65	Superscope	-62
Coachmen Inds	35	Keystone Consolidated	4	Susquehanna	-7
Combustion Equipment ¹	-100	KLM	1	Talley Inds	-23
Commonwealth Oil	-92	Laclede Steel	-17	Texfi	-45
Continental Air Lines	-52	M Lowenstein	167	Trans World Corp	8
Culbro	166	Manhattan Industries	89	Tyson	10
Dayton Malleable	-34	CH Masland	-13	UAL	-18
Ehrenreich Photo-Opt ²	24	Massey-Ferguson	-74	UNC Resources	-66
Elixir Industries ³	142	McLean Trucking ²	55	Uniroyal	67
Envirotech ²	1	McLouth Steel	-79	US Steel	-19
Facet Enterprises	5	Memorex ²	-10	Valmac Industries	-14
Fedders	-18	Monfort of Colorado	44	Victoria Station	-16
Filmways	-32	National Kinney	-29	Vornado	-34
Firestone	54	Orange-co	0	Ward Foods ²	22
First Pennsylvania	-39	Ozark Airlines	71	Westmoreland Coal	-24
Fischer & Porter	-37	Pan Am World Airways	-38	White Motor	-95
Fleetwood Enterprises	91	Penn-Dixie Industries	-79	Wilson Freight ²	-100
Food Fair (Pantry Pride)	65	Raybestos-Manhattan	-47	Winnebago Inds	117
Foodarama	0	Republic Airlines	-49	World Airways	-48
Ford Motor	-19	Robintech	-61	WTC	-7

¹Company filed for bankruptcy within period 9/80 to present. ²Company merged or acquired within period 9/80 to present. ⁴Company went private.

³Reverse 1/10 split in 1981. ⁵Spector division of TeleCom filed Chapter 11 in 1981

Coors is the only major brewer to turn its back during the latest round of beer mergers and acquisitions. The question is, why?

What price independence?

By Paul B. Brown

IN THE FIERCELY competitive beer business, takeovers and mergers have become as common as the head on a freshly poured brew. First G. Heileman goes after Jos. Schlitz, which is eventually acquired by Stroh. Then Pabst and Olympia started talking merger—the deal is still pending. If it goes through it will ice out C. Schmidt & Sons and Heileman, which had wanted Pabst. Now Heileman and Irwin Jacobs (*FORBES*, Aug. 31, 1981), who owns 16% of Pabst's stock, are talking. In a market that is growing at just 2.5% a year—and is dominated by Anheuser-Busch and Miller, which together own 53%—mergers and combinations are seen as the key to survival.

Standing aloof is Adolph Coors Co. of Golden, Colo. Coors became a national fad in the mid-1970s with news that President Ford ordered the Secret Service to pack its suds on *Air Force One*. The beer became *the* thing to drink back East, because it was so hard to find away from its Rocky Mountain base. But if you think Coors, which has seen its stock price drop 65% since going public seven years ago, is likely to be acquired anytime soon, think again.

William Coors, company chairman, told shareholders at the annual meeting in May that they had been approached by two companies (a good guess would be Stroh

and Pabst) but were not interested in acquiring or being acquired. It is hard to figure out why not.

Last year the only places Coors' market share increased were Tennessee, Louisiana and Mississippi, and that is only because the company had never sold beer there before. Most of its 20-state market is west of the Mississippi. But even the 422,000 barrels added in the South did not help. Coors shipped 560,000 barrels, or 4% less last year than it did the year before, according to figures compiled by industry expert Robert Weinberg. In fact, Coors has been losing market share. The nation's sixth-largest

brewer (behind Anheuser, Miller, Stroh-Schlitz, Heileman and Pabst), Coors had 8.9% of the nation's beer market in 1976, but the 13.3 million barrels it sold last year was only 7.4%.

The results of all this are predictable: Earnings per share dropped last year, from \$1.86 a share to \$1.48. And it would have been worse had not a reduction of LIFO-valued inventory and more optimistic assumptions about the performance of the pension plan added 26 cents of the \$1.48. The stock has not fared any better. When Coors went public in 1975, it sold at \$31 a share. Recently it traded at \$11. Still, top company officials, most of whom are members of the controlling Coors family, say they will go it on their own. They point to their unique brewing and packing process, which unlike other major brewers' does not require pasteurization, and to the quality of their product and say there is no need to merge.

Says Martin Romm, a beverage analyst for First Boston, "They control their stock so they control their destiny, and they certainly are controlling it—they are keeping everyone away. Part of that is because the management is viewed as being pig-headed, which is one nice way of saying they have allowed their market to be invaded without a fight."

Marketing is the company's major problem, but until recently it had little reason to realize that. Through the mid-1970s Coors dominated the Rocky Mountain states and had a strong share of the West Coast and parts of the Midwest. A-B and Miller left it pretty much alone. "Coors was brewing all it could, Anheuser and Miller brewed all they could, and that was about it," Weinberg says. "Then the other brewers added capacity and went after the Coors market."

Result: In 11 of the states that used to be Coors strongholds, the brewer holds the lead only in New Mexico, Kansas and Oklahoma. The slippage is continuing. In California, for example, Anheuser sales were up 1.9% last year, Miller increased 2%, and Coors dropped 2.8%. In Texas, Anheuser was up 2.6%, Miller 5.5%, and Coors dropped 2.6%. In Arizona, Anheuser gained 1.2%, Miller was up





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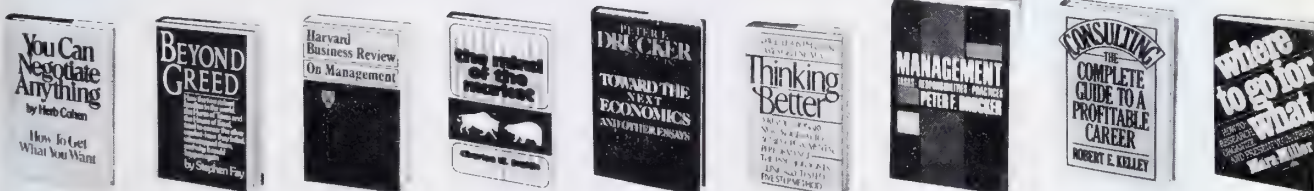


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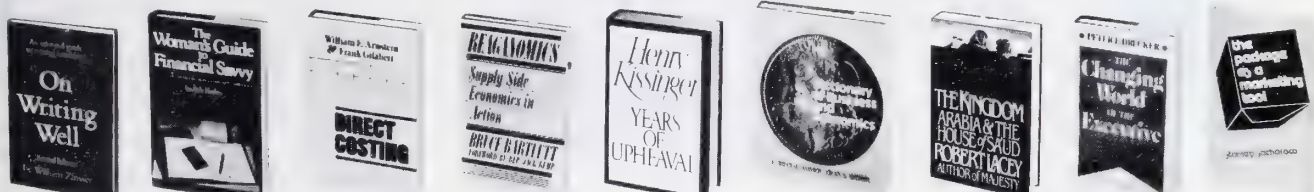
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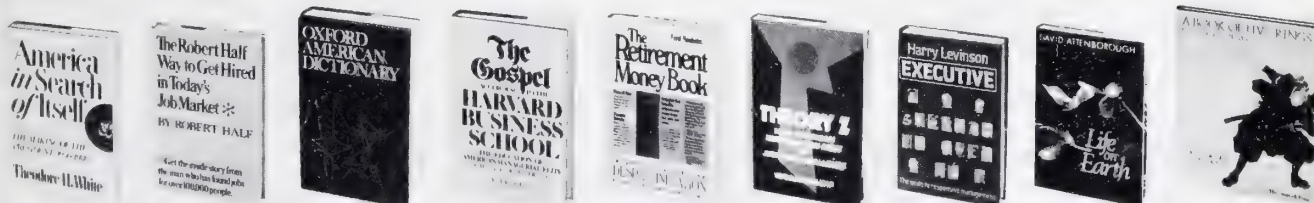
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ATHOS
1981 Award/Artist Carol Summers

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The Business Committee for the Arts, Inc. is a private, not-for-profit national organization of business leaders created to encourage business and industry to assume a greater share of responsibility for the support, growth and vitality of the arts.

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Business Alliance for the Theatre, Las Cruces, New Mexico
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Days Inns of America, Inc., Atlanta, Georgia
Equitable Life Assurance Society of the United States, New York, New York
First American Bank of Virginia, McLean, Virginia
First Vermont Bank and Trust Company, Brattleboro, Vermont
The Fluor Corporation, Irvine, California
Getty Oil Company, Los Angeles, California
GHK Gas Corporation, Oklahoma City, Oklahoma
The Greater New Haven Chamber of Commerce/Olin Corporation, New Haven/Stamford, Connecticut
Hewlett-Packard Company, Palo Alto, California
Morgan Construction Company, Worcester, Massachusetts
Morgan Guaranty Trust Company of New York, New York
Rodale Press, Inc., Emmaus, Pennsylvania
The Seven-Up Company, St. Louis, Missouri
1776, Inc., San Antonio, Texas

Shaklee Corporation, San Francisco, California
The Standard Oil Company (Ohio), Cleveland, Ohio
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Valley Cable Television, Encino, California

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Beatrice Foods Company, Chicago, Illinois
Boise Cascade Corporation, Boise, Idaho
Champion International Corporation, Stamford, Connecticut
The Chase Manhattan Bank, N.A., New York, New York
Chesebrough-Pond's Inc., Greenwich, Connecticut
Commerce Union Bank, Nashville, Tennessee
Corning Glass Works and Corning Glass Works Foundation, Corning, New York
Dallas Times Herald, Dallas, Texas
Exxon Corporation, New York, New York

Hanes Dye and Finishing Company, Winston-Salem, North Carolina
Humana Inc., Louisville, Kentucky
Mobil Corporation and Mobil Foundation, Inc., New York, New York
Philip Morris Incorporated, New York, New York
Phillips Petroleum Company, Bartlesville, Oklahoma
Rexnord Inc., Milwaukee, Wisconsin
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.8%, and Coors slipped nearly 4%. To try to change this, Coors is in the midst of unrolling yet another ad campaign stressing the product's quality. But Weinberg is not impressed, adding that the new campaign is revealing. "I can't keep up with all the management changes,"

he says. "To me that's a sure sign the company is in trouble."

Troubled or not, by spurning the tentative merger offers Coors has painted itself into a corner. Following the last wave of mergers, the only beer companies the Justice Department would allow to take on Coors' 16-

million-barrel capacity are no longer looking. (Anheuser and Miller would presumably face insurmountable antitrust problems if they tried to make any acquisition.) When you control the stock, you can afford to be this independent. But in Coors' case, you have to ask why. ■

Streetwalker

Anxious to hedge your portfolio by going short on stock-index futures? Unfortunately, you may have a lot of company.

Professional play

By William Baldwin

BOOKMAKERS DON'T MAKE MONEY by guessing who will win the ball game but by laying off bets so they come out ahead either way. In the stock market, arbitrageurs play this role. Their latest gimmick should give pause to anyone about to take a short position in stock-index futures.

Brokers have been touting stock-index futures as the way to hedge a portfolio in what could be a continuing bear market. Sell short a stock-index future, the customers have been advised, so that as the market continues to decline money can be made in the index future to compensate for losses in the portfolio. On the Chicago Mercantile Exchange, for example, one index contract represents about \$55,000 worth of stock and could hedge an existing portfolio of that size. The customers have responded. Four months into stock-index trading, investors have, on most days, lined up in droves on the selling side. So heavy has been the selling—volume has been running about \$1 billion a day—that futures prices are often conspicuously out of whack with the stock market itself. The professionals have been gleefully pouncing on this anomaly with arbitrage schemes that all but guarantee them profits.

Among them are said to be such heavyweights as Salomon Brothers, Goldman, Sachs & Co.; and the little-known but powerful Commodities Corp. in Princeton, N.J.

Consider, for example, the S&P's 500 future for December 1982, trading in mid-June at about 109. Someone selling the contract was betting that the 500-stock average will wind up in December below 109; for every point it ends below, he would make \$500. At the same time the future was quoted at 109, the S&P's 500 itself was running at 110.

But if 109 really is the best bet on where the market will be in December, isn't 110 too high for it to be trading today? Why would anybody be buying securities at 110 that will likely be worth 109 six months from now? Stocks, remember, yield on average a bit less than 6%; risk-free Treasury bills are paying 14%. That means the S&P's future should never be trading at a discount to the S&P's itself. It should be trading at a premium of about 8% per year of contract duration, representing the spread between dividend yields and bond yields. The December contract, due in six months, should be more than four points ahead of the spot index, not a point behind.

Here's how the pros are cashing in

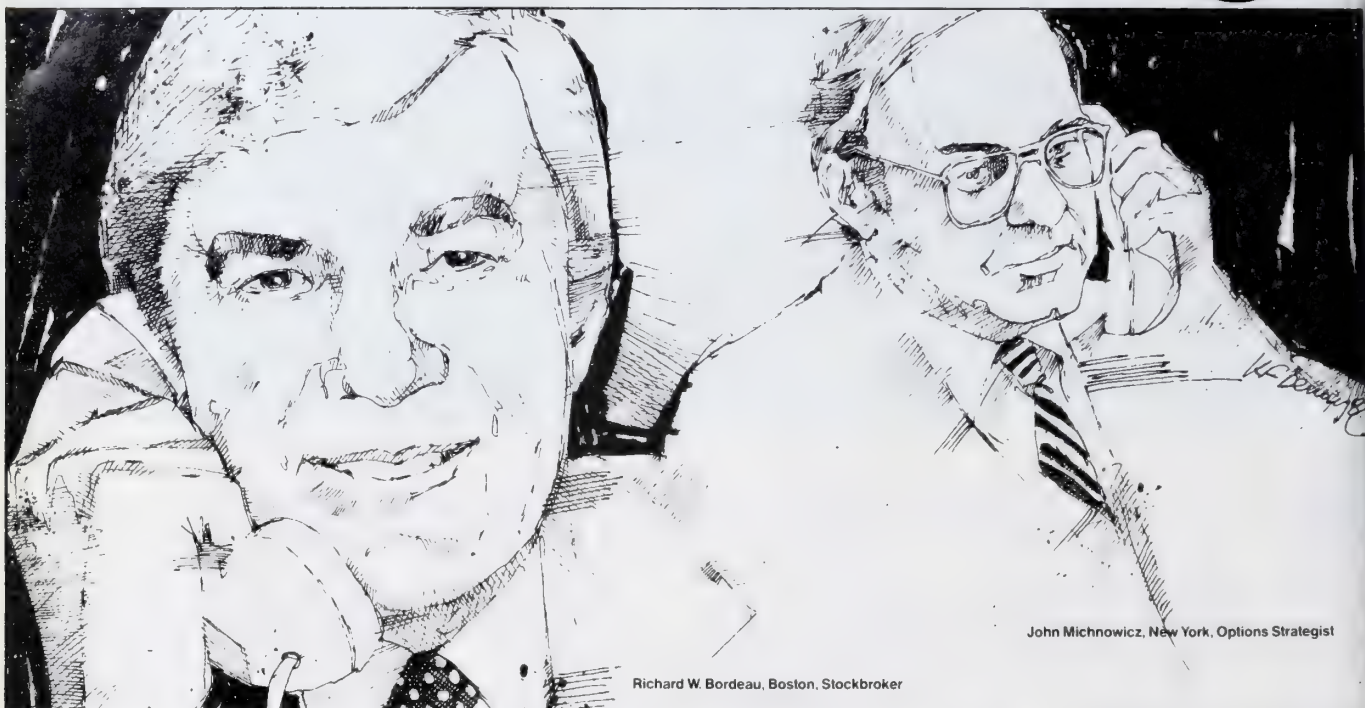
on the misalignment, as explained by an arbitrage expert at a big brokerage house: "You sell short a wide variety of securities designed to mimic the S&P's 500. You could come close enough with 30 to 50. Then you buy the index futures contract. You have to pay dividends on the stocks [sold short], but you get the use of the proceeds of the short sale." For every \$55,000 of position taken in the futures, this man's firm sells \$55,000 worth of stock it doesn't own. As short-seller, the firm is obligated to pay dividends declared on the stock portfolio—about \$3,300 a year. Meanwhile the transaction is generating \$7,700 a year in interest from the proceeds of the short sale. Executing all the trades is a tricky business, but the arbitrageurs are protected against broad swings in the market: Gains and losses on the stock positions are offset by the futures position.

The arbitrage expert hastens to add that individuals shouldn't try to play this game, since it's very difficult for anyone but a stock exchange member to get to first base with short sales. The main reason is that stockbrokers have a habit of denying customers—except those with a lot of clout—the interest earned on the proceeds of a short sale. "The terms are unfair," says Lawrence Summers, an MIT economist who follows the stock market. Not getting the interest is the difference between winning and losing on the arbitrage play.

The best guess among market observers is that the pricing anomaly in stock-index futures will eventually disappear. "This is what happens in the early stages of a new instrument," says Merton Miller of the University of Chicago business school.

None of this means that the stock market is mathematically guaranteed to appreciate 8% a year or that the seller of an index future will necessarily strike out. But anyone contemplating a futures sale should perhaps reflect on the comment offered by an arbitrage firm partner, when asked to explain how anomalies persist: "If everybody were smart, it wouldn't be so easy to make money." ■

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Richard W. Bordeaux, Boston, Stockbroker

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IRS has tacitly approved stripping Treasury bonds. For individuals and businesses this opens interesting possibilities.

WHERE'S THE CORPUS?

By Ben Webberman



How about a nice zero-coupon Treasury bond? No, the Treasury doesn't issue them but it is quite easy to make your own. All you need is a regular Treasury bond or note of the bearer variety and a pair of scissors. Cut off all the coupons and there you have it—a Treasury zero-coupon bond. In trade jargon, a stripped bond. I talked about the possibilities in my Jan. 18 column. Since then, the securities industry has been gearing up to facilitate the process by creating trading markets both in de-couponed bonds and in the separated interest coupons themselves.

Why bother? Because if you want the interest rate advantages of zero-coupon bonds, you might as well have the safety and liquidity of a Treasury issue.

A Treasury bond from which the interest coupons have been detached is called the "corpus" of the bond. It does not bear interest. Its market value is the present-day discounted value of a bond worth par or \$1,000 on the day of maturity. Say it's a \$10,000 four-year Treasury note. Its discounted value at current interest rates of 15% would be about \$5,607.

Right now some people are playing fancy tax games with these stripped Treasuries. For example:

stripping the coupons, then selling the corpus for less than the cost of the intact bond and then taking the difference as a capital loss, perhaps short term. The U.S. Treasury is out to curb this and other abuses. At present, for example, there is no tax on imputed interest for holders of stripped Treasury bonds—in marked contrast to the situation with regular corporate zero-coupon bonds. Under a proposed bill, which would be retroactive to June 9 of this year, holders of stripped Treasuries would have to report a certain amount of interest on their tax returns every year to reflect the narrowing of the discount as the bonds approach maturity.

Let's see how all this works. Take the Treasury 15¾% bond maturing Nov. 15, 2001. There are now 39 coupons attached to each \$1,000 bond. Each coupon has a face value of \$78.75, coming due at six-month intervals between this November and 2001. The May 15 coupon should have been deposited in a bank for collection by now. Clipped of all remaining 39 coupons, this bond, startlingly, would be worth about \$6.40—the discounted present value of \$1,000 in 2001. The discounted coupons have a present value of \$1,060.60. Add the \$1,060.60 and \$6.40 and you get the current market value of the intact bonds, \$1,067.

Until recently the Treasury frowned on stripping. But in going to Congress with its tax bill to curb tax avoidance, it has given the practice tacit approval. Stripping is now kosher.

This creates endless possibilities. If you think interest rates will drop, you can buy a corpus of a long-term Treasury—the stripped-down bond—and in the above example own a \$1,000 face value

bond for only \$6.40; think of the leverage. If interest rates drop to 10%, the price would more than double to \$15.10. That's a gain of 58%. A bond with a 14.7% coupon selling today for \$1,000 would rise to \$1,400 were the going interest rate to fall to 10%, a 40% increase.

Or you can use stripped Treasuries in your IRA. Or, stripping yourself, you can pass income to a dependent child or parent while holding the capital value—a kind of flexible Clifford trust.

Blyth Eastman Paine Webber Inc. has come up with an ingenious use of stripped Treasuries. It enables Pacific Power & Light Co. to wipe off its balance sheet a \$51 million tax-free pollution control bond issue due in 2007, but callable in 2001.

In a two-step transaction, Pacific Power swapped newly issued preferred stock with First National Bank of Chicago, its trustee, in exchange for release of its obligations to the issuer of the pollution control bonds. The trustee then exchanged the preferred stock with Blyth for a \$27.6 million package: 1) \$21 million of principal amount U.S. Treasury 15¾s of 2001, coupons and all, purchased at \$24.2 million; 2) \$30 million 15¾s stripped of their coupons for about \$3.4 million cash. Face value, \$51 million; cost, \$27.6 million. First Chicago will use the Treasury package to match the cash flow requirements of the pollution control bonds.

Terms of the pollution control issue, which was brought to market in 1977, permit substitution of collateral. By putting up the Treasury and some small amount of cash now, the trustee is considered to have "defeased" or paid off the obligation. The Treasury securities will be held to first call date in 2001 and then used to pay off the contingent debt of Pacific Power.

Exxon is using a \$500 million fund to buy full and stripped Treasuries, at a discount to offset some of its outstanding debt, too.

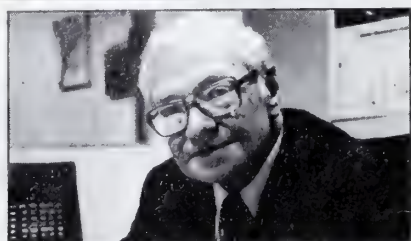
Four other corporations are talking to Blyth about similar deals. They like the idea of writing \$51 million of debt off their books by incurring only \$27.6 million in new obligations. Anybody who knows Wall Street knows that this is only the beginning of finding clever uses for stripped Treasuries. ■

Ben Webberman is economics editor of FORBES magazine

There is risk in holding stocks, but now that risk may be less than in holding cash.

A COMING SUMMER RALLY?

By Heinz H. Biel



We have gone through a lengthy period when you couldn't help losing money, regardless of where it was invested. While the Dow is down "only" about 23% from last year's high, it was easy to lose at least twice that much on stocks of impeccable quality. Bonds certainly have not been a cure-all, and here, too, quality did not provide shelter against losses.

I don't know how many people were seduced into "investing" in gold and silver, whose merits as the only true guardians of value had been touted so effectively by the professional fearmongers. The price decline in these precious metals (precious to whom?) matches that of even the most speculative stocks, and diamonds were not the investor's best friend, either.

The craze of investing in collectibles has come to an abrupt end, but people won't know how much they have lost until they try to sell them. They will have a rude awakening. Nor did money invested in Swiss francs or German marks, supposedly the world's strongest currencies, keep you from losing money.

For the past year or so, cash and its equivalents proved to be the only safe way to invest money, and you were most generously rewarded. Even after allowing for taxes and

inflation, Treasury bills and short-term notes, as well as the money market funds, provided a positive return. What more could anybody want besides safety and income?

Of course, just sitting on cash is sterile. I believe and hope that this hoarding of cash is only a temporary phenomenon. The outlook would be bleak if it were otherwise. Recessions and bear markets do come to an end—sooner or later. Why should it be different this time?

We have a saying on Wall Street that in a bear market any share of stock you own is one too many. How true! But there is a second part to this saying: In a rising stock market every dollar you have in the bank is one dollar too many. You will appreciate that feeling, too, when you see the Dow soaring, while all you get is 13% from your money market fund. What was the smart thing to do during the past year may not be so smart in the next 12 months.

The market has been "technically oversold" for some time. While such a condition can last for weeks, it always ends in a rally. Now, a "rally" can be nothing more than a brief respite from a continuing bear market or it may mean the beginning of a change in direction, *i.e.*, the starting move of a major uptrend. Only in retrospect can one be sure of the true nature of such a rally.

This year such a rally—and it may have begun late last month—would coincide with the seasonal summer rally, an event that is as certain as the amen in church. At times these summer rallies are minuscule. Last year, for instance, the net gain in the Dow from the May/June lows to the summer high was a mere 0.4%. However, over the past ten years the summer rallies have averaged 7½%, which would

be a welcome relief at this time.

Confirming my belief that the news of the day is not a primary market factor, the news actually had been getting better, while the market kept falling. The Falklands conflict has once more become a mere "episode"; the danger that the Israeli action against the Palestinians might cause a major conflagration in the Near East seems to be lessening; a budget compromise, even though it's not a good one, has been reached; the number of signs that the recession is bottoming is increasing. In brief, the daily news diet is improving—except for corporate news.

So far, we have seen 103 dividend cuts and 123 omissions. As the market, like any bear market, no longer discriminates between the good and the bad, many corporations no longer even try to put their best foot forward, and so they cut their dividends, take their writeoffs, dilute their equity by swapping stocks for bonds, etc. All of this may be healthy for the company, but it sure is demoralizing for the stock market.

Unless all hell breaks loose in our economy—a possibility, but hardly a probability—stocks are terribly cheap. It is not just that price/earnings ratios of many top-quality stocks are unusually low. Stocks also are selling at an unusually wide discount from reported book values and an even higher discount from replacement value, if allowance is made for inflation.

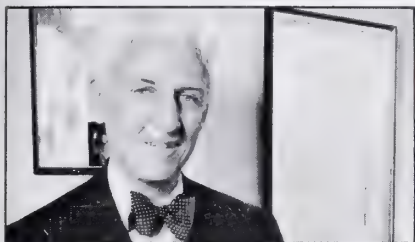
As a rule, I don't pay much attention to the book value of individual companies, because it may tend to give the investor a false sense of security. If a company can't earn a decent profit on its assets, it is most probably not worth so much as the amounts shown on the balance sheet. Just think of the old Penn Central, Asarco, Harvester, Woolworth or U.S. Steel. However, if you consider a large comprehensive group of stocks like the S&P's or Dow Jones stock indices, the ratio of market value to book value does become meaningful. Right now this ratio is about as low as it has been at previous bear-market bottoms. Of course, this does not preclude the possibility of even lower prices, but taking a longer-term view, one can come to only one conclusion: Stocks are very cheap. ■

Heinz H. Biel is a vice president of the NYSE firm of Janney Montgomery Scott.

Families with tax problems frequently overlook a simple and effective way out.

CLIFFORD TRUSTS

By John Train



George Winwood redesigns display areas for large retail stores. He studies traffic flow and spending patterns, looks at competitive stores and draws on his experience and imagination to work out attractive new ways of presenting merchandise. Winwood makes good money. But he has a terrible tax problem.

His business grosses him about \$350,000 in a normal year. His draftsman, office manager-secretary, rent and other expenses run to about \$100,000, leaving him \$250,000 to live on—more than enough, you say. The trouble is that federal income taxes, state taxes, municipal taxes and such odds and ends as occupancy and franchise taxes exact a total of about \$100,000. He needs to move in the same circles as his corporate customers, so his living costs are high—roughly \$100,000 a year. That leaves \$50,000 for everything else.

Both his father and his wife's mother are in their late 70s, and need help. Also, the Winwoods are determined that their children will have first-class educations. This means putting out some \$10,000 a year for each parent and a similar amount for educating each of their four children, or \$60,000 in all. So

George Winwood earns a quarter of a million dollars, and goes into the hole by \$10,000 annually! He and his wife are dipping steadily into their savings instead of building capital in their prime years.

Finally, in desperation, Winwood sought help from a financial planner-tax accountant. The financial planner called in a lawyer, and the three of them worked out the following arrangement. It changed Winwood's situation overnight.

For both grandparents and all four children short-term or "Clifford" reversionary trusts are being created, the grandparents' to last for life, and the three older children's for 11 years, enough to see them through college and a bit beyond. The youngest child got a 13-year trust.

The Winwoods set aside \$160,000 out of their capital and took out a \$200,000, ten-year mortgage on their house, making \$360,000 in all. Of this, they are putting \$60,000 into each of the six trusts, which in turn will be invested in money funds. This should provide roughly \$9,000 per beneficiary, or about \$54,000 per year in all. The tax on that sum is shifted from the Winwoods' 55% combined federal and state bracket to the modest levels of the children and grandparents.

The Winwoods get a \$34,000 deduction for the interest on the \$200,000 mortgage. The bank was delighted to grant them the mortgage, since it is trustee of the trusts and can see the money infallibly reverting to the Winwoods when the trusts end. There is a 2% negative interest spread in this transaction, but that cost is eclipsed by the move from high brackets to low ones.

The remaining \$160,000 had been in Treasuries yielding 13%, or about \$20,000. That income moves right out of the Winwoods' taxable

income into the children's and grandparents'. So in all the Winwoods have reduced their taxable income by \$54,000. Aftertax, they are \$24,000 better off.

To avoid a gift tax on the creation of the trusts, the capital of each was contributed in two installments, \$30,000 in each of two years. The gift tax payable on the funding of a reversionary trust is the discounted present worth of the future stream of income. But the Treasury still uses a 6% discount table to calculate that present worth, and the 1981 Tax Act permits a \$20,000 annual gift from a couple to each recipient. The value of the future stream of income was less than \$20,000 in each of the two years, so no tax was payable. The rules prescribe that to shift income in this way the trust must be for at least ten years from the last contribution of capital, or until a specified named event that one need not expect to occur within ten years. The reason the Winwoods used a longer period was to permit funding over two years, to keep the value of each year's contribution below \$20,000.

A simpler solution would have been to make a noninterest-bearing demand loan to each of the six family members—a Crown loan, as it's called. The recipient then invests the money for a high yield in his low bracket. Here, there would have been no trusts or trustees and thus a minimum of paperwork. However, the IRS contends that there should be a tax payable in this transaction. The courts in every jurisdiction where cases have been brought have held the contrary. But the Winwoods' lawyer, a conservative soul, said that a future Congress might make Crown loans taxable. At the same time, it might once more lower the annual gift tax exemption for a couple, and the 6% discount for calculating the value of the gift might be increased. In that situation the Winwoods would be boxed in all over again. So, it was agreed that they would get the job done now, while they still could, using Clifford trusts.

I am frequently surprised to see how many otherwise sensible people go in for risky "tax shelters," while passing up such simple and effective tax-cutting devices as Clifford trusts. ■

John Train is president of Train, Smith, Investment Counsel, New York, and the author of The Money Masters and Dance of the Money Bees.

Why it's no longer in the Fed's power to bring down long-term interest rates.

DON'T BLAME VOLCKER

By Ashby Bladen



It is truly frightening when people who are playing with dynamite don't recognize the stuff for what it is. I am talking about proposals from within the Reagan Administration to pressure the Federal Reserve to lower interest rates. Why is this dynamite? Because the people who propose it do not understand that the Fed no longer has the ability to manipulate long-term interest rates. In fact, any relaxation by the Fed, such as its critics propose, would have a result opposite to that intended. Instead of lowering long-term interest rates, it would send them through the roof and cause the long-term bond market to collapse.

The Administration's financial thinkers are arguing that the main cause of our troubles is the Fed's inability to engineer a moderate but stable rate of growth in the money supply. This simply is not so. I believe, first, that the money supply is not the relevant variable, and, second, that a stable rate of growth of the money supply, however defined, would be impossible to achieve. Curbing the Fed's independence from political pressures is no answer.

On the first point, we will not get our policies right until both economists and politicians understand

that *any* extension of credit creates purchasing power. Credit extensions can fuel inflation, if they are documented by a liquid financial instrument that the lender can sell or rediscount to recapture the purchasing power that he has lent out, before the borrower pays him back. Until they understand this, the politicians, with many economists' blessings, will continue to use the national credit in ways that lead inevitably to inflation.

The inflationary excess purchasing power is created by the central bank's purchasing and rediscounting financial instruments in order to keep the markets liquid, and to that extent the politicians are right in blaming the Fed. But a liquid financial market is a useful thing to have. Indeed, once the system becomes overextended, a drying up of liquidity inevitably means widespread failures of people and businesses that cannot refinance, massive unemployment and falling prices. And it is too easy an out to let the politicians pile all the blame on the Fed, while forgetting that it was their own largess that created the problem in the first place.

The distinction between the money supply and total credit outstanding is an obsolete one that dates from the time when money either consisted of, or was readily convertible into, precious metals. That day being long gone, complaints about erratic growth of the money supply are at best irrelevant. Moreover, too many economists and politicians have so little experience with the practical workings of the marketplace that they do not realize that the week-to-week fluctuations of the money supply are caused by a multitude of individual and business transactions that the Fed can offset only after the event. For exam-

ple, when I pay my income taxes, the money supply goes down; when the Treasury sends me a refund check, it goes up. The Fed cannot neutralize those swings beforehand, and there is no reason why it should.

The basic problem is that a decade and a half of serious and accelerating inflation has pierced the so-called "money illusion"—the belief that we are getting richer just because the dollar amount of our incomes and financial assets are going up. This loss of confidence has left the American people fearful of holding long-term financial claims. Once that fear sets in, the kind of remedies that I like to call "hair-of-the-dog economics" simply will not work anymore. The economists and politicians who are calling on the Fed to lower interest rates by easing its policy simply do not understand the practical consequences of their recommendations. Emergency support, such as the Fed gave the market in the Drysdale affair, is in order. But in the current environment, any substantial relaxation of Fed policy would, as I said, be like dropping a match into a keg of dynamite.

It is difficult for economists, politicians and central bankers to realize that we are now facing a fundamental crisis of confidence, not merely a cyclical phenomenon. The ability to manipulate long-term interest rates has evaporated. Under these circumstances, a continuation of the irresponsible policies of the last half century could easily cause a total breakdown of the financial system. It is in this context that I have steadily criticized President Reagan's easy political answer of Lafferite supply-side economics, and that I now criticize the proposal to sacrifice the Fed's independence.

The only way that confidence and, therefore, moderate and stable interest rates can be restored is through a long period of responsible and noninflationary policies. Recently, Fed policy has been rather reassuring. Against this, however, the actual national budget deficit, the prospective deficits that will be caused by Lafferism and the failure to face up to politically sensitive problems like Social Security are alarming. My conclusion in a nutshell: In blaming the Fed, Treasury Undersecretary Beryl Sprinkel is blaming the wrong party. ■

Ashby Bladen is senior vice president for investments of the Phoenix Mutual Life Insurance Co. and author of How to Cope with the Developing Financial Crisis.

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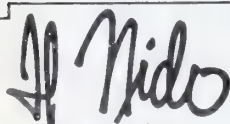
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Psychology & Investing

"They wanted to give me the money, so I took it." What "they" didn't tell him was he would soon be paying 17% interest, while his cash income was dropping.

BETTING THE FARM

By Srully Blotnick



"If only prices had continued rising for just a little longer, I'd have ended up owning half the state." This is not some speculator in a dust-free urban office talking, but a Nebraska farmer with dirt under the fingernails of his rough, tanned hands.

An Iowa farmer: "Unless interest rates come down soon—by September at the latest—I'll lose everything I own."

For American farmers, it is the morning after. They have been on a speculative binge. One statistic tells the tale: The average annual interest payments of the 136 farmers of my sample currently exceed the profits they are making from agriculture. How did that happen? The answer is an illuminating one, whether you live in the city or country.

As the price of farmland doubled in the late Seventies, and then doubled again, money seemed to be sprouting from the soil. "The acreage itself was worth more than anything I could grow on it," said the Nebraskan with a laugh. But they were paper profits. In the overwhelming majority of instances in my sample, 47 out of 56, the paper profit on the land was used as collateral for purchases in two main

areas: first, more land and, second, "working capital" for the new, expanded farm. The phrase deserves to be in quotes since, as the members of this group are among the first to admit, the money was put to an unexpectedly wide variety of purposes. "I used it [borrowed money] to tide me over," said one, "until I got cash for my [soybean] crop." Much of the borrowed money went to pay for vast amounts of the latest model tractors and other equipment—more perhaps than was strictly necessary. The gadgets that farmers love are very expensive. But the money was there, so why not?

As long as the prices of both land and commodities moved steadily higher the game was an exciting one, in which each step seemed to lead naturally and inevitably to the next: more land, more equipment, more fertilizer, more spending of every sort.

When I told urban participants in my sample about the overextended plight of farmers, they seemed surprised. "The Midwest is more conservative politically," said a Philadelphia attorney. "I thought it would be more conservative in its financial dealings, too." Most were of the opinion that the dice-rolling attitude on the part of farmers must be new. "A sign of the times," many called it. Some said: "I'll bet it wasn't there in the past."

Not so. Farmers have always been gamblers. Tocqueville in 1830 wrote: "Almost all U.S. farmers combine some trade with agriculture... especially in the West, each brings land into tillage to sell it again, not to farm it; he builds a farm house on the speculation that, as the nation's population increases, a good price will be received for it."

Periodically, this speculative

Dr. Srully Blotnick is a research psychologist and author of *Getting Rich Your Own Way* and *Winning: The Psychology of Successful Investing*.

MONEY & INVESTMENTS

itch got out of control. Treasury Secretary Crawford wrote in 1816: "Banks have been incorporated not because there was capital seeking investment, but because men without capital wanted the means of obtaining loans." As Malcolm Rohrbaugh put it in *The Land Office Business* (Oxford University Press, 1968), the U.S. bank "entered a period of ill-advised and uncontrolled [credit] expansion. It extended credit easily, expanded its loans substantially, and helped swell the inflation that was felt in every section of the country by the middle of 1817."

As long as cotton was king, and prices for it stayed high, land speculation intensified. However, in the subsequent period of tight money and credit, commodity prices slumped, cotton fell from 25 cents to 10 cents per pound by 1820, and cash became king.

So, what's new? Not a great deal. Except that this time the farmers didn't have to clamor for borrowed money. It was virtually thrust at them. "They *wanted* to give me the money, so I took it," said a Missourian. "My car, my trucks, tractor, house—the whole show—were all bought with loans." How were the loans to be repaid? "By income from my farm," he replied. But when he took out those loans, interest rates were 5 or 6 points lower than they are now, farm product prices were rising and land was continuing to increase rapidly in value.

The next time you are trying to figure out where all the loan demand that is keeping interest rates so high is coming from, particularly during a period when the economy is weak, add the Midwest to your list. In addition to industrial, service and financial corporations' and the government's soaking up every available dollar of savings, there are strapped farmers in there, too. They are borrowing, not to get ahead, but to stay afloat.

In short, current high interest rates are in large part a holdover of speculative excesses that mushroomed all across the country in the recent past. It's a game that farmers—like the rest of us—have played to the hilt. Only when the excesses have been corrected, and squeezed from the system, will rates come down—and stay down. ■

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Buy stocks in the consumer and defense sectors—stocks that will benefit from the tax cuts and defense spending.

CULTURE CLASH

By Richard B. Hoey



This is the year of the culture clash between the politicians in Washington and the money market analysts on Wall Street. The politicians are very proud of themselves for proposing a first budget resolution with an estimated deficit for fiscal 1983 of only about \$100 billion. *Only*. Some politicians even muttered that the financial markets or the Fed should be punished if interest rates didn't fall as soon as this brilliant handiwork was announced.

Once the House of Representatives passed its first budget resolution, the bond and stock markets paused briefly, then headed straight south. A few rude voices noted that the deficit forecasts included unspecified tax increases and spending cuts whose approval by Congress in an election year were quite open to question. Those same rude voices pointed out that the money and bond markets also would have to provide financing for the off-budget deficit. Most professional budget forecasters thus predict an official deficit in fiscal 1983 of \$120 billion to \$160 billion, even excluding the hidden off-budget deficit.

Wall Street analysts just don't believe it is realistic to expect a responsible fiscal policy out of the politicians in this election year. The

evidence to date confirms that Wall Street is right.

The fiscal stalemate in Washington is one of the major factors holding interest rates way above inflation. These high real rates of interest have depressed many vulnerable sectors of the economy. In response to this, we have been advising investors to put their money in the beneficiaries of budget largess and avoid sectors that suffer from the fiscal stalemate. This means that you should continue to buy stocks in the consumer and defense sector, which will benefit from the tax cuts and defense spending.

In past columns, I have recommended such defense stocks as Watkins-Johnson, Sanders Associates, McDonnell Douglas and General Dynamics. Today, I would add *Rockwell International* (29) to the list of attractive defense stocks.

Largely because of the B-1 bomber program, Rockwell should be able to generate strong growth over the next five years. The company should be able to show a compounded growth rate of about 14% for revenues, 18% for pretax operating earnings and 16% to 17% for earnings per share.

The B-1 is the top strategic program priority of a Reagan Administration that has shown little inclination to compromise on defense issues. The B-1 program has been a political football for many years, but the critical first-production unit was funded in the fiscal 1982 budget. Congressional appropriations on the fiscal 1983 budget should lock the B-1 program in place. Opposition is likely to become less effective thereafter. This is true for two reasons: the program's momentum and the broadening base of political support as the prospects of jobs in Ohio, California, Texas,

New York, Oklahoma and Washington become more tangible. The program plan calls for flight of the first production aircraft early in 1985. (I wonder if there's a ghost of a chance of a trial flight in early November 1984?)

The Reagan Administration has proposed the elimination of tax deferrals on multiyear contracts. It's open to question whether this will be passed. Even if it is, it is designed to be applied retroactively to Feb. 26, 1982, while the initial B-1B contract with Rockwell was let on Jan. 20, 1982. Even if the contract were renegotiated to eliminate these tax deferrals, Rockwell is not likely to pay any taxes on B-1B production until 1986.

The B-1B contract has a provision for progress payments of 95% of costs rather than the traditional 80% rate. As a result, Rockwell will benefit from better cash flow on this program than many contractors have from past defense programs. While the current program calls for 100 aircraft, the program may be extended in the late 1980s.

Rockwell is also the largest independent supplier to the world's ground transportation industry. It produces axles, brakes, transmissions and gear boxes for heavy trucks and off-highway vehicles. Production of heavy trucks has dropped by more than 50% in the last three years, and Rockwell's profit margin in its automotive operations dropped, from 11.5% in 1979 to zero in 1981. There should be a modest rebound in this business over the next several years.

The company's financial position is sound. Of the firm's \$5 billion in assets, \$1 billion is in cash. Cash flow was \$6.30 per share in fiscal 1981. Earnings per share of \$3.84 in the fiscal year ended Sept. 30, 1981 should rise to \$4.45 in fiscal 1982 and \$5.50 in fiscal 1983. Selling at about 5 times estimated fiscal 1983 earnings, this stock is a good buy in an uncertain market.

Another defense stock I like at current prices is *Raytheon* (33). Over the 1981-86 period, sales should compound at 17% to 18%, while earnings compound at 19% to 20%. Its \$2.2 billion of defense-related sales in 1981 could triple by 1986, for a compound growth rate in this part of its business of 25%. ■

Richard B. Hoey is first vice president, economist and investment strategist at Bache Hall.

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At the present time, wheat and corn can be traded by taking advantage of their widely different harvest times.

WHEN IT'S IN THE BIN

By Stanley W. Angrist



Based on crop conditions as of June 1, the harvest should be an exceedingly bountiful one. (Of course, much can happen between now and when the crops are in the bin.) For us eaters, that is good news indeed. For American farmers, who have pulled in several successive excellent crops, it's not such great news. It all depends on your point of view.

The U.S. Department of Agriculture estimated the winter wheat crop at 2.13 billion bushels, 2% above the previous record crop of 2.10 billion bushels harvested last year. Despite large shipments in the final two months of the old crop season, exports fell short of the USDA's estimate, and final stocks increased about 17%. June 1 stocks of wheat are at near-record levels. One can add to that sobering fact that other wheat-exporting nations of the world—namely Canada, Australia and Argentina—have rather grandiose planting intentions.

The demand side of the equation is just about as gloomy. Demand is being pressured by a global recession and high U.S. interest rates, which are producing a strong dollar. The strong dollar in turn makes our exports dear. Potential demand from the Soviet Union is minimal as they await the outcome from

their crop. Moreover, they have purchased wheat from other exporting nations, leaving the U.S. as a residual supplier. The tight credit policy instituted by the Administration toward the U.S.S.R. adds to the bleak picture for exports to that country. It is well to bear in mind that in the 1981-82 marketing year, the Soviets purchased 250 million bushels of hard red winter wheat (HRW). This was 33% of total U.S. HRW exports and 14% of total U.S. wheat shipments. The new season

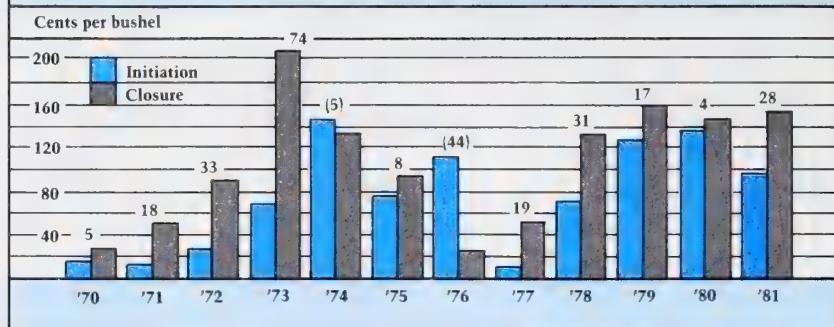
a couple of points of view. It appears that domestic feed usage has increased about 7% from a year ago, even though overall U.S. animal numbers are down. What's more, corn exports in the last couple of months have averaged close to 50 million bushels a week. This pace cannot be maintained unless forward sales of corn increase. Stocks of corn on June 1 stood at a record 3.8 billion bushels.

These fundamentals may be traded by taking advantage of the different harvest periods for wheat and corn. The greatest pressure in the wheat market comes in early July, as the winter wheat harvest ends. The greatest pressure in the corn market comes in the fall, as the corn harvest is being completed. This leads one to examine a spread of long December wheat/short December corn.

Shearson/American Express noted in a recent report that during the period 1970-81 the spread made its low in 9 of the 12 years by the

Harvesting the difference

When a spread is profitable 10 out of 12 years, then it's always worth a second look. And this spread seems to be most profitable when put on after June 11 and taken off before Nov. 12. Colored bars are the average spread difference at initiation; grey bars are the average spread difference on closure. Numbers over the bars are the profit or (loss) in hundreds of dollars for that year.



began June 1, and Russia has yet to purchase any of our wheat for shipment this marketing year.

If you think the fundamentals for wheat are bad, you will find that there is not much solace to be derived from the prospects for corn. But most observers feel that the total acreage planted to corn will fall far short of the February planting intentions of 84.7 million acres.

Recent quarterly reports on corn stocks have been encouraging from

middle of July. As the chart shows, the spread has had some unusually profitable years and only 2 losers out of 12. I would try to do this spread with wheat carrying no more than a \$1.05 premium to corn. I would look for the spread to widen about 50 cents (\$2,500 per spread), risking no more than 20 cents (\$1,000) from my entry level.

Margin on this spread is about \$1,200, while the round-turn commission is about \$100. ■

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

So you want to start your own business. Should you? Here are some facts that may assist you in making your decision.

BUCKING THE SYSTEM

By Thomas P. Murphy



"More and more people are fed up with big organizations," John C. Crystal told me. "They are looking for alternatives."

Crystal, who offers courses in life-style planning, finds that, increasingly, people want to try something on their own. "They're bored to death by the big corporations," he says.

It is not surprising. Over the last decade, big companies haven't really grown at all. The action has shifted to small companies, which provided two-thirds of all the new jobs in the economy over that time. At the beginning of the period, entrepreneurs were considered oddities; now they are folk heroes.

The attractions of the entrepreneurial life are many: independence, money, respect and, that greatest of human satisfactions, doing it your own way. So, why doesn't everybody do it? Starting your own business has its hazards.

Entrepreneurs can go bankrupt. They can wreck their health, their marriage and their reputation. Not everyone can be an entrepreneur; not everyone should be. How do you decide if you are one?

I have been asked this question so often that I thought a series of articles that take the reader through the whole entrepreneurial process is needed. Are entrepreneurs made?

Or are they born? Are entrepreneurs different from the rest of us? Or is a successful entrepreneur just a corporate manager who happens to own his own business?

"Do you want to meet the entrepreneurs?" Joe Mancuso asks. "Then take the 7 a.m. shuttle. The corporate managers are on the 8 o'clock plane."

Mancuso, who is an authority on the subject, makes the point that is repeated by everyone who knows anything about it: If there is one distinguishing feature among entrepreneurs, it is energy level. They have the capacity and willingness to work hard.

What about age? When is the right time to start? A decade ago the answer, on average, was between 35 and 40. Typically, a manager became seasoned in big business, saved some money, then took the plunge. But the average age seems to be coming down. Today 30 to 35 seems closer to the norm. On the other hand, Steven P. Jobs was 22 when he founded Apple Computer, and I have known entrepreneurs in their 70s. Age, I believe, is not important. The best time to become an entrepreneur is when you want to become one.

Education? Here, there are two answers. For modest businesses, small retail stores, restaurants, etc., a common motive for starting one's own business is lack of educational credentials. On the other hand, the entrepreneurs starting more ambitious projects, particularly in high technology, generally have at least a college degree, and the norm today seems to be the masters' level. Common disciplines are engineering or business degrees, but the generalists, the English majors and history majors, seem to be making a comeback. A doctorate is viewed

with suspicion. It implies one is a scholar, not a doer.

Psychologists and sociologists have done some work with successful entrepreneurs and a pattern has emerged.

One observation, which I find odd, is that the typical entrepreneur had an abnormally intense relationship with his father. He was either too close to dad, or, the flip side, too antagonistic. One motivation for his entrepreneurial drive is to show dad—something.

Entrepreneurs also tend to be the firstborn or only children. Why? Probably because the firstborn has to find his own way in life and early becomes the "boss" for siblings.

What is the key motivator? Curiously, it is not making money. Money is the way the score is kept, not the game. It is not love, either. Entrepreneurs tend to be egocentric and driven people. They are hard to love and hard to live with. What they really ask from the world is respect. Rodney Dangerfield says it all.

Does any of this help in deciding whether you want to take the plunge? I doubt it. The decision is something you will have to grapple with in your own soul. Even in recessions, big organizations can be comfy and secure. But let me suggest where you could get some help with this toughest of decisions.

One approach—it works on self-evaluation and skills inventory—is the John C. Crystal Center, 111 East 31st St., New York, N.Y. 10016. Price for eight successive Saturday sessions is \$750. The program is offered in other cities as well.

Another, with emphasis on "how to," is the Center for Entrepreneurial Management, 83 Spring St., New York, N.Y. 10012. Joseph Mancuso, its enthusiastic mentor, offers courses in many cities and books, tapes, etc.

A third you might consider—and in posh surroundings—is The School for Entrepreneurs, Tarrytown Conference Center, East Sunnyside Lane, Tarrytown, N.Y. 10591. The course is held over two weekends and costs \$750.

Do they help? One successful entrepreneur I met found herself sitting beside a Rockefeller at one of the schools. That helped a lot with the financing of her enterprise. ■

Thomas P. Murphy heads a venture capital firm, Partnership Dankist, Stamford, Conn

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who is somebody in business
who does not read
Forbes Magazine?**

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"The more things change. . ."

Items from past issues of FORBES

Sixty years ago in FORBES

From the issue of July 22, 1922)

'The collapse of the mark, long recognized as the inevitable and unpreventable climax of Germany's riot of paper money, finds the financial markets of the world forearmed, and the emergency—outside of Germany—minimized. For months the mark has been selling for less than half-a-cent, as compared with the pre-war parity of about four marks for a dollar. . . . At the current rate approximately six marks may be purchased for one cent. In other words, it would take six marks to buy a stick of chewing gum in America."

'Money rates are now lower than at any time in more than three years, and, with the downward tendency still in operation, many bankers have become apprehensive as to how far this movement is going to invade their earnings. Some bankers hold that a large proportion of their funds must be kept employed at 4% at least, if they are to show any returns above total running expenses. Uneasiness over cheap money is particularly prevalent among country bankers, who are dependent upon their loans for their profits."

"Franklin D. Roosevelt of New York, former assistant secretary of the Navy and Democratic candidate for Vice President in 1920, was elected president of the American Construction Council, a new body formed to coordinate and standardize efforts for increasing the efficiency of all kinds of construction."

Fifty years ago

(July 15, 1932)

"Around the beginning of June, Coca-Cola common stock achieved the distinction of being—as it still is—the highest priced active common stock listed on the New York Stock Exchange. A year earlier it had been sixth, but one by one the other leaders, and last of all American Telephone & Telegraph, sagged in price and left Coca-Cola the leader."

Coke's stock market eminence had two causes. First was the gradual realization that in a depression the strongest companies were the purveyors of inexpensive consumer products sold



Coke service reps advise a soda fountain crew on how to run a profitable fountain

on habit. But the ultimately more important cause was the leadership of Robert W. Woodruff, who came from White Motor in 1923 to run the company his father had bought in 1919.

Coke then had two markets of nearly equal size, bottle sales and fountain sales; but the latter was far harder to control. A sample of Woodruff's approach: In 1927 he personally fired his entire fountain sales force—but added they could return the next day to hear of a new department being set up. The next day he rehired them all—but as servicemen, giving each a new territory. Their job: to teach fountain operators details like how cold the carbonated water in a Coke should be (34 degrees) and what glasses to use (thin)—in short, how to run a fountain profitably.

Was Woodruff too keen on Coke's fountain trade? Perhaps. But when the above article ran, he had already initiated the first research on coin-operated Coke vending machines.

"The Democratic convention lived up to most of the advance estimates regarding greater excitement than the Republican convention, a more revolutionary platform and longer duration. After a hectic series of all-night sessions, tiresome roll-calls and a sheaf of slowly changing ballots, the Democrats have finally nominated Governor Roosevelt of New York for President and Speaker Garner of the House of Representatives for Vice President.

"As was almost certain in advance

of the convention, the Democratic wet plank goes much further in the direction of definite repeal than the Republican platform. Other planks in the platform include unemployment relief, federal economy, tariff reduction and farm aid."

Twenty-five years ago

(July 15, 1957)

"Like a careful cat which thinks it knows a rubber mouse when it sees one, Detroit long has looked down its nose at the small European-type car. . . . [But] last month U.S. automen were taking a hard second look at the small-car market. Their reason: imports of foreign cars were growing by leaps and bounds. Last year the U.S. admitted 108,000 foreign cars valued at \$127 million—almost twice as many as in 1955, even though it still added up to fewer than one month's production of Chevrolets. And in 1957's first four months, imports rolled 73,000 cars off ships to run 136% ahead of the same period in 1956."

"Key to market profits in the next ten years, declares noted stockbroker-author Gerald Martin Loeb, will probably be found in relatively unpublicized special situations. Two industries in which he sees future capital-gains opportunities: steel and, 'where old-fashioned operating management has been replaced by modern ownership management,' railroads."

We think too small. Like the frog at the bottom of the well. He thinks the sky is only as big as the top of the well. If he surfaced, he would have an entirely different view.
MAO TSE-TUNG

You can't expect to win unless you know why you lose.
BENJAMIN LIPSON

The ultimate value of life depends upon awareness and the power of contemplation rather than upon mere survival.
ARISTOTLE

Wisdom denotes the pursuing of the best ends by the best means.
FRANCES HUTCHESON

Dogma does not mean the absence of thought, but the end of thought.
G.K. CHESTERTON

The search for truth is really a lot of good fun.
VERNON HOWARD

One part of knowledge consists in being ignorant of such things as are not worthy of being known.
CRATES

An intellectual is someone whose mind watches itself.
ALBERT CAMUS

The only man who can't change his mind is a man who hasn't got one.
EDWARD NOYES WESCOTT

False conclusions which have been reasoned out are infinitely worse than blind impulse.
HORACE MANN

Thoughts on the Business of Life

The victors of the battles of tomorrow will be those who can best harness thought to action. From office boy to statesman, the prizes will be for those who most effectively exert their brains, who take deep, earnest and studious counsel of their minds, who stamp themselves as thinkers.
B.C. FORBES

Thinking is one thing no one has ever been able to tax.
CHARLES F. KETTERING

The trouble with most people is that they think with their hopes or fears or wishes rather than with their minds.
WILL DURANT

It is curious what shifts we make to escape thinking.
HERMAN MELVILLE

It is impossible to live without brains, either one's own or borrowed.
BALTASAR GRACIAN

It is surely one of nature's jokes that she so often gives an abundance of self-confidence to those who are not analytical and withholds even a smidgen of it from those who are.
PATRICIA PUMPHREY

More than 3,000 "Thoughts," indexed by author and subject, are available in a 574-page book at \$12.95. Send check and order to: Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Add appropriate sales tax on New York State orders.

The successful people are the ones who can think up things for the rest of the world to keep busy at.
DON MARQUIS

Of all the many earthly resources we have at our command it is only our minds and the associated unique processes that are truly infinite.
CRAIG DAY

Unless a capacity for thinking be accompanied by a capacity for action, a superior mind exists in torture.
BENEDETTO CROCE

Unless there be correct thought, there cannot be any action, and when there is correct thought, right action will follow.
HENRY GEORGE

It isn't what people think that is important, but the reason they think what they think.
EUGENE IONESCO

A Text . . .

Without counsel purposes are disappointed: but in the multitude of counselors they are established.
PROVERBS 15:22

Sent in by Henry Cassee, Grand Rapids, Mich. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

Few people think more than two or three times a year. I have made an international reputation for myself by thinking once or twice a week.
GEORGE BERNARD SHAW

FORBES
August 2, 1982

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Proof that it takes a unique company to build uncommon value into a sports car.

The more you look at the world's finest sports cars, the more you like the Mazda RX-7.

Mazda engineering has made it an exceptional sports car. And an uncommon sports car value. So uncommon, in fact, that the resale price of many RX-7 models is higher than the original manufacturer's suggested retail price.

The 1979 RX-7 S, for example, has a greater retained value than the '79 Porsche 924 or Datsun

1979 MODEL	RETAINED VALUE		
	80%	90%	100%
Mazda RX-7 S			118.4%
Datsun 280ZX			86.9%
Porsche 924			82.3%

280ZX, according to the May-June 1982 Kelley Blue Book. And an impressive potential for resale.

But forget for a moment about the return on investment should you decide to sell an RX-7. Think instead of all the fun that's ahead when you decide to buy one. **Mazda RX-7 is a stimulating experience.**

Mazda engineers have designed the RX-7 to deliver a full measure of the enjoyment and stimulation that you demand in a world-class sports car. Yet never has the importance of fuel

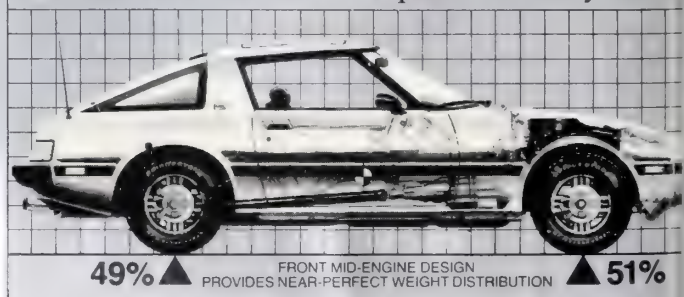
economy been ignored. **Shaped for performance.**

RX-7's sleek exterior was created for aerodynamic efficiency. Its clean lines reduce the drag coefficient to a low 0.34. Superb aerodynamics, together with the powerful rotary engine, give the RX-7 the kind of performance that has carried it to the IMSA Camel

GTU race series championship in both 1980 and 1981.

Great balance, great handling.

With its front mid-engine configuration, RX-7 also has near-perfect balance. 51% of the weight rests on the front wheels, 49% on the rear. This close-to-ideal weight distribution, coupled with finely-tuned



30 EST. hwy. mpg
21 *EST. mpg

suspension, delivers handling that only a true sports car can provide. A long list of standard features.

Standard features on the 1982 Mazda RX-7 S include 5-speed over-drive transmission AM/FM stereo with two speakers • Power antenna Steel-belted radial tires Front and rear stabilizer bars • Complete instrumentation, including tachometer, voltmeter, trip odometer, temperature and oil-pressure gauges • Analogue quartz clock • Remote control electric fuel door release Tinted glass Mazda RX-7 prices start at \$9695 (3 model); \$10,295 (GS model); \$12,095 (GSL model). **

By now, you should understand why we say RX-7 is an exceptional sports car. And an uncommon sports car value. But is the company behind the car equally unique? Yes.

Mazda's philosophy is simple one.

Mazda is committed to building the best possible automobiles at the lowest possible cost.

This means using advanced technology to develop cars that meet the driver needs for performance, economy and comfort. And engineering them to offer an uncommonly high level of quality and value at an affordable price.

The way we're keeping quality high and cost low through methods to minimize waste and maximize productivity. For example, the implementation of a synchronized production system has both raised qualitative standards and significantly reduced lead inventory

costs. It has also been a prime factor behind Mazda's remarkable 97.8% increase in productivity over the past five years.

People play the key role.

Many of the ideas for improving quality and productivity originate in Mazda Quality Circles. Each Circle is a mini-"think-tank" comprised of seven or eight employees who meet voluntarily on their own time to solve various job related problems. There are currently 2147 MQ Circles at Mazda, with more than 16,000 people participating.

Suggestions to improve operations are also made on an individual basis. In 1981 alone, employees contributed more than 1.7 million suggestions and more than 50% were adopted. The vast majority of these increased the efficiency of a specific work place, and helped to eliminate wasted time, motion and money in virtually all areas of the company.

Quality pays dividends.

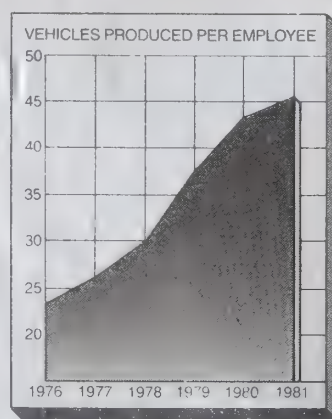
Mazda's commitment to quality is paying impressive dividends, both corporately and to the more than one million people who buy our products each year in 110 markets worldwide. And it has helped to make the RX-7 the best-selling two-seat sports car in America.

The more you look at the qualities of the company behind the car, the more you like the quality of a Mazda.

Mazda's rotary engine licensed by NSU-WANKEL.

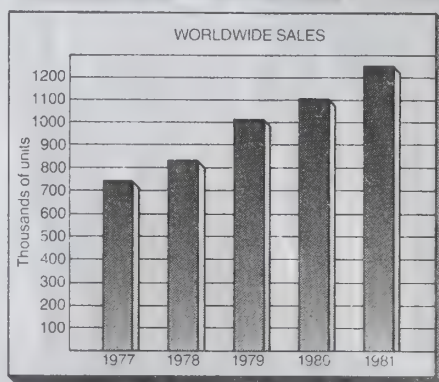
**Manufacturer's suggested retail prices. Actual prices set by dealers. Taxes, license, freight, options (wide tires/al. wheels \$350-\$400) and other dealer charges extra. Prices may change without notice.

SOME ADDITIONAL INTERESTING FACTS ABOUT MAZDA:



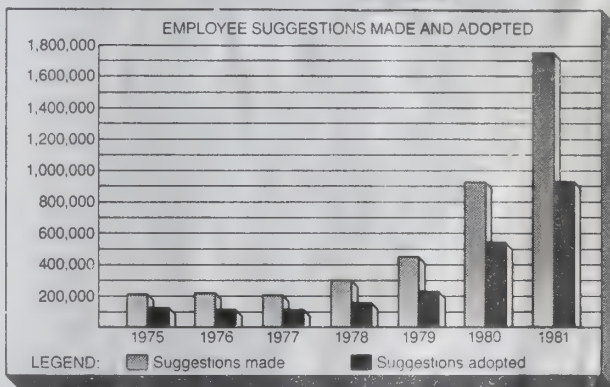
Mazda productivity has risen 97.8% in just 5 years.

JAPAN'S LEADING MOTOR-VEHICLE PRODUCERS		
Rank	Company	Total Units 1981
1	Toyota	3,220,418
2	Nissan	2,584,288
3	Mazda	1,176,608
4	Mitsubishi	1,094,793
5	Honda	1,008,927
6	Suzuki	578,876
7	Subaru	472,639
8	Daihatsu	472,254
9	Isuzu	457,242



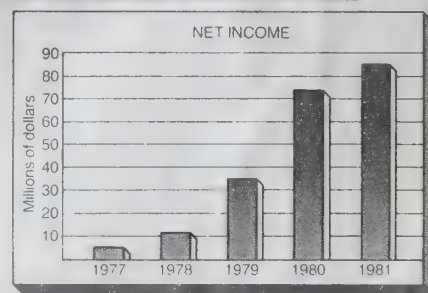
*Mazda is the third largest motor-vehicle producer in Japan. We're also the ninth largest in the world.**

1,245,696 units were sold worldwide in FY 1981.



The depth of Mazda employee involvement is shown by the number of suggestions made and adopted.

Net after-tax income was \$85.0 million.



*Source: Japanese Automotive Manufacturers Association

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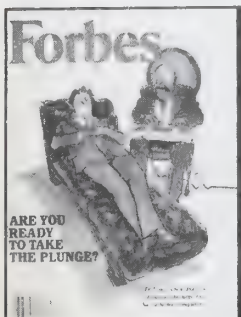
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*1982 EPA estimates for comparison purposes. The mileage you get may vary with trip length, speed and weather. Actual highway mileage will probably be less. Calif. 30 Est. hwy mpg, 20 Est. mpg.

mazda

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Number 3



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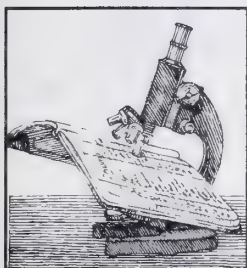
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Cover Illustration: Charles Saxon

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Motives, please

Most of the media—including our competitors at *Fortune* magazine—took the bait. They snapped up the stories being fed to them about alleged past Mafia connections of Secretary of Labor Ray Donovan. The former New Jersey businessman was cleared by a special prosecutor appointed under the Ethics in Government Act; and President Reagan, considering the case closed, has given him full backing. But the baying continues. Why so much vituperation? Allan Dodds Frank in our Washington Bureau explains that a lot of people are out to get Donovan. The article "Argumentum ad hominem" begins on page 37. (Sorry for the Latin; we couldn't think of an apt English term.)

King's rook's pawn to . . .



Senior Editor Stephen Kindel once stayed up all night playing chess against a friend's brand-new home computer. The play ended at 6 a.m., when Steve threw an unconventional move against the machine. He opened with the king's rook's pawn. The computer screen went blank and stayed that way. It was programmed to handle any sensible opening, but a *king's rook's pawn*? Steve left the machine on and went home to bed. That afternoon he checked back: The screen was still blank. He hadn't beaten the computer, but he had paralyzed it. From that experience he drew a conclusion that runs through the cover story in this issue. The conclusion: A computer is no better than the program in it. The cover story is addressed to those FORBES readers who are not computer experts but are seriously pondering taking the plunge into home computer ownership. Steve's advice: "Your first decision shouldn't be *which machine*, but rather *which programs will I be using?*" The machine is only the motor system. The program is its real gray matter.

Steve's advice to chess players: "To confuse the computer, try opening with a flanking move rather than a conventional opening." His article "Bringing home the computer" starts on page 61.

Boiled in oil

"Are some banks about to get burned in energy lending?" That was the deck on an article written by Senior Editor Thomas O'Donnell that appeared in our Nov. 9 issue. Since then, in the wake of the Penn Square failure, a good many banks have been boiled in oil. Congratulations, Tom, for catching the dangerous trend early.

Dividends—the opiate of the masses?

While not quite Swiftian in its indignation, the "modest proposal" authored by William Baldwin on page 31 comes down pretty hard on managements that, in effect, go into debt in order to soothe stockholders with dividend increases. Baldwin looks at a group of companies that defy convention by scrimping on dividends and using the money to buy in their own stock. How have they done? Spectacularly, most of them. Hence the conclusion: Cash dividends are the opiate of the investor. Manager of our Southwestern Bureau in Houston, Bill Baldwin ranged the country to do this one.

James W. Michaels
Editor

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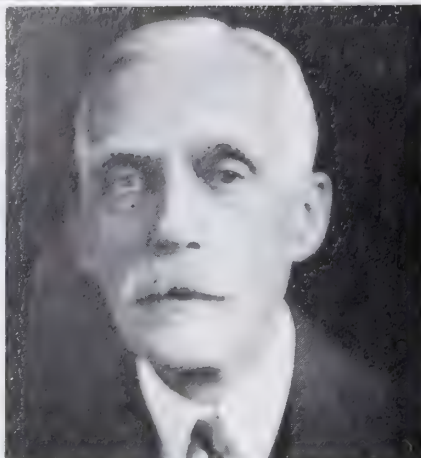
Homes are getting smaller—and cooler—according to the National Association of Realtors. Last year the median size of a new home was 1,550 square feet, 105 square feet smaller than in 1978, according to the association's chief economist, Jack Carlson. One space-saver seems to be the bathroom; more new homes have only one and the number of those with two or more is steadily shrinking. Bedrooms are also disappearing; last year only one new home in five had four or more. Although they may scrimp on space, young new homeowners are insisting on air-conditioning; nearly two-thirds of the houses erected last year had central cooling systems, an 11% increase since 1977. Despite the lessons of the energy crisis of 1974 and later years, half the new homes also were electrically heated. Small-is-better seems to be catching on. About 36% of the new single-family homes sold last year went to first buyers, Carlson says, a figure he takes as a sign that new houses will replace existing ones as starter homes.

Who wants cash?

The year-old Cash Discount Act, designed by Congress to make it easier for merchants to cut prices for cash-and-carry customers, seems to have had no effect among sellers or buyers. A survey conducted by college students for the Credit Union National Association found that 94% of merchants offered no discounts for cash and most had never heard of the law. (The 6% who had adopted the idea, however, knocked off 10% to 20% on listed prices for cash buyers.) Congress bought the less-for-cash idea last summer from President Reagan's consumer adviser, Virginia Knauer, who argued against the proposed alternative of a surcharge on credit-card users. The Federal Reserve Board, which wanted the extra charge on card carriers, is studying the law and is supposed to report on it next year.

The odd couple

Andrew Mellon, Secretary of the Treasury under Warren Harding, Calvin Coolidge and Herbert Hoover, has been teamed with President John F. Kennedy, of all people, in the GOP campaign to beat back Democratic efforts to stop or delay next year's scheduled 10% income tax cut. A



Treasury Secretary Andrew Mellon; President John F. Kennedy
A political pairing that's hard to beat—or believe.

staff study by the Republican side of the Joint Economic Committee of Congress says that the tax cuts made by Mellon in the 1920s and by JFK in the 1960s sparked startling results in the economy. Savings, the study claims, tripled after Mellon acted and doubled during the period of the Kennedy tax reductions. "In both cases, savings and investment boomed, economic recovery occurred, unemployment dropped and the amount of taxes paid—especially by the very wealthy—increased dramatically," says Senator Roger Jepsen of Iowa, the GOP vice chairman of the Joint Committee. In 1921, he notes, Americans with incomes over \$50,000 paid 44% of all the income taxes collected; in 1928 they paid 78%.

Sunset for sterling?

Sterling silver, once as traditional at weddings as the bridal bouquet, seems to have taken on a permanent tarnish. Sales took a beating when raw silver jumped to \$48 an ounce in early 1980, but despite a drop to about \$6 an ounce today flatware still isn't moving. Harold Drake, who tracks silver for the U.S. Bureau of Mines, points out that in 1978, when silver prices were about equal to today's, nearly 18 million ounces were consumed for flatware; last year it was below 6 million ounces. Sterling (92.5% pure silver) hasn't fallen as fast as the raw metal, apparently, although it is difficult to measure prices because of the deep discounting in the trade. One silversmith, for example, quotes a list price of \$635 for a place setting but also offers a 70% discount that brings the tab down to \$190. Even when raw silver was at its peak



during the Hunt brothers' buying binge, discounts of 50% were commonplace. Consumption did go up 29% during the first three months of this year, but 1981 sales were so low that the increase doesn't mean much. Experts think the decline will be permanent because working wives and young married couples prefer stainless steel. One twist: Sterling owners who jacked up their insurance during the silver boom may be carrying too much coverage now; in some cases insurers can replace a set of sterling for well below its insured value.

Forest versus the trees

Businessmen are optimistic about the economy in general—but not about their individual industries. That was the paradox found by researcher Lora Collins after surveying 1,500 chief executives for the Conference Board, the New York-based research group. "Executives may be rather more convinced by the forecasts of a general economic pickup than they are by the evidence at hand in their own industries," she said.

The bankers' beef

A policeman's lot is not a happy one, runs the Gilbert & Sullivan line, and neither is a bank regulator's. Federal bank overseers have just okayed a new, 7-to-31-day certificate for banks and savings and loans tied to the 91-day Treasury bill rate. The idea is to let bankers compete with the money market funds, whose assets have swelled from \$127 billion to \$203 billion in the past year. So is anybody happy? Bankers find the new paper nowhere near what they are asking

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Super 80 leaves competition at the gate in new passenger survey.

Flyers give McDonnell Douglas twinjet high marks for quiet ride, seating comfort and cabin atmosphere.

This survey pitted jetliners similar in size and number of seats in head-to-head competition. The same class of service, same fare, flying the same routes, on the same days, on the same airline—virtually everything was the same.

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In this survey of more than 1,200 passengers, conducted by a leading independent research organization, the Super 80 was rated "very appealing overall" nearly twice as often as the 727. "Knowledgeable" passengers—people who fly a lot and know airplanes—preferred the Super 80 *three to one* over the 727.

We'd be happy to provide more details about the survey results. Just write to: Travel Industry Affairs, 3855 Lakewood Blvd., Long Beach, CA 90846. But better still, come aboard a new Super 80 first chance you get. See for yourself why this jet leaves the competition at the gate.



Super 80
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Trends

for, which is a certificate with no maturity, no interest ceiling, and check-writing privileges to match those offered by the funds. Commercial banks are mad because, while thrifts can pay the full bill rate (currently 13%), they can pay only a 0.25% lower amount. No one likes the \$20,000 daily minimum balance required by the new paper, since money funds will open an account for as little as \$500. The funds, moreover, are paying the full 13% rate on the Treasury bills, so the banks have no edge there. Bankers, who want the funds made subject to the same restrictions and reserve requirements they must observe, now say they will ask Congress to give them more leeway to compete with the funds.

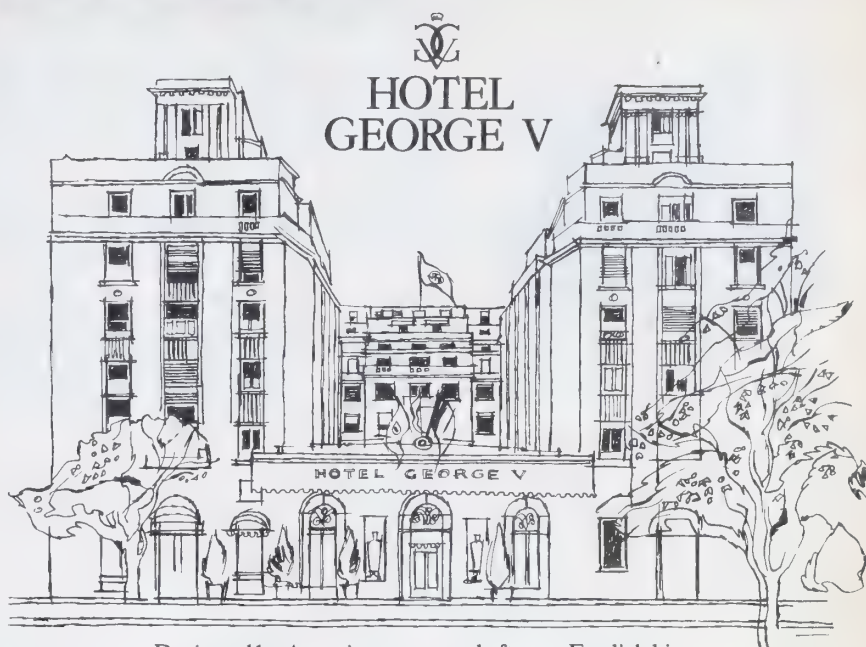
The seat-belt index

The rich not only get richer; those who drive probably live longer, according to a survey of seat-belt use made by researchers at the Insurance Institute for Highway Safety. Among teenage drivers from neighborhoods with a median housing value of \$39,000, use of belts was 1%; for those in areas with a \$175,000 housing median, it was 21%. Adults fell into the same pattern, with 8% from the lower-valued housing belting up and 31% of those from the more affluent homes doing so.

Death and taxes

Uncle Sam thinks of everything. With the Reagan Administration renewing the struggle to awaken the public to the need to be prepared for nuclear war, contingency plans are pouring in. Among them is a memo from the Treasury Department detailing the survival agenda for its tax collectors. With records and computers in ashes after an attack, the memo states, "the necessary information would not be available for preparing of tax returns and determining tax liability." Furthermore, "the Internal Revenue Service would find it impossible to verify the necessary figures in audit situations." So what to do? After the mushroom clouds clear, the surviving T-men would immediately start collecting a 20% sales tax that would be substituted for the bomb-canceled income taxes. And, perhaps with tongue in cheek (or perhaps not), the memo's author states that the plan would let delinquent taxpayers who survived start life over with a clean IRS slate.

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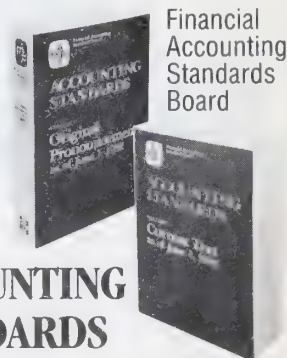
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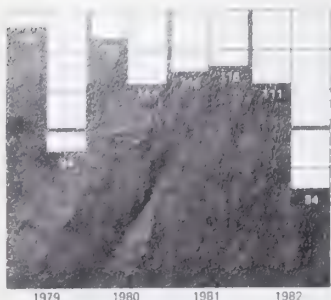
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Executive Job Market Shows Severe Drop



Second Quarter Figures Reveal 27% Decline vs. '81

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AY/ERC management comments: "There is general uncertainty that current recovery indications will be sustained."

The complete report is available on request.

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Follow-Through

The diamond's best friend

Four years ago *FORBES* checked for flaws in the diamond-hard defenses of the De Beers cartel that ruled the market for 80% of the world's precious stones (Apr. 17, 1978). Despite stiff price rises imposed by De Beers' Central Selling Organization, the London-based "syndicate" that sells the stones, a roaring speculative bull market raged unchecked. Nonetheless, *FORBES* concluded that the South African combine headed by Harry Oppenheimer was still in command. A year later (May 28, 1979) *FORBES* again found that despite its problems De Beers was in control, "a functioning anachronism, not immune from the pressures of the times but probably able to cope with them."

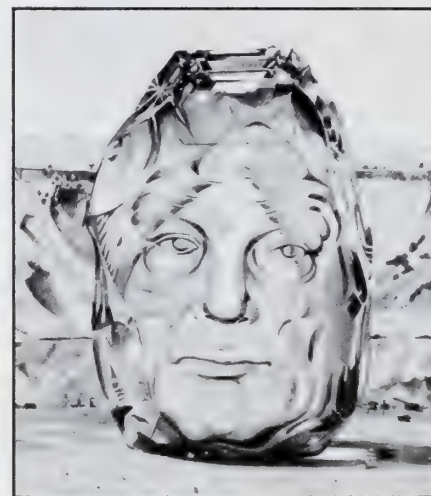
De Beers' troubles haven't gone away. Last year its London salesmen totted up \$1.47 billion in diamond volume, a pale reflection of 1980's \$2.7 billion. Once again the specter of a collapse in this most tightly controlled market has been raised, this time by author Edward Jay Epstein in a new book, *The Rise and Fall of Diamonds*. De Beers' brilliantly promoted concept that "a diamond is forever" is, in Epstein's view, "an artificially maintained illusion" and "the diamond convention," his phrase for the Oppenheimer system of control, is on the brink of collapse. The world's women own too many diamonds (perhaps half a billion carats); demand is falling and supply is rising. Unless De Beers can find a way to bring these forces back under control, Epstein writes, "the diamond convention will disintegrate and be remembered only as a historical curiosity."

Events, however, have overtaken Epstein's thesis. He stressed the fact, for example, that huge diamond deposits in Australia were about to go into operation and the Canberra government had vowed not to let its products be marketed by a company closely identified with South Africa and its apartheid racial policy (even though Oppenheimer has repeatedly deplored apartheid). With another 20 million carats a year flowing into the diamond market, Epstein could see no way for De Beers to keep prices from falling, particularly when demand had dwindled.

Last February, however, Australia's diamond diggers, a combine called the Ashton Joint Venture, signed an agreement in principle to channel their diamonds through De Beers. The deal, still to be formally ratified, will

let De Beers handle all of Ashton's gem production, 10% of its total output. Of the remainder (semiprecious stones, industrial diamonds, etc.), De Beers will handle 75%. So much for the Australian threat. Russia, another major—and unpredictable—diamond producer, has also stayed in the fold. Soviet gem-quality stones (perhaps as much as 50% of the output of the Siberian mines) have long moved through De Beers via shadowy third parties. They still do. (Russia exports only gem diamonds; the rest it keeps.)

The recession, not speculators or unruly dealers, has been the root of De Beers' troubles, not only in diamonds but in other lines. While the downturn was cutting gem sales, the strong dollar had helped drop gold from \$680 an ounce in early 1981 to



Harry Oppenheimer, king of diamonds
Under pressure, but in command

around \$300 today. And De Beers mines about 10% of the world's gold supply. Profits for the year ending in March were down from \$823 million the year before to \$468 million after taxes—respectable but still down. Harry Oppenheimer chose this moment to announce that he would retire as chairman at the end of the year. Retirement, however, hardly meant surrender; any management changes that result will be more in style than substance. The 73-year-old Oppenheimer will stay as a director and his family will still own 8.8% of the company, the biggest single holding. The new chairman will be Gavin Relly, 56, Oppenheimer's loyal lieutenant; and the retiring chief's 36-year-old son, Nicholas, has become one of De Beers' deputy chairmen. De Beers still spells diamonds.

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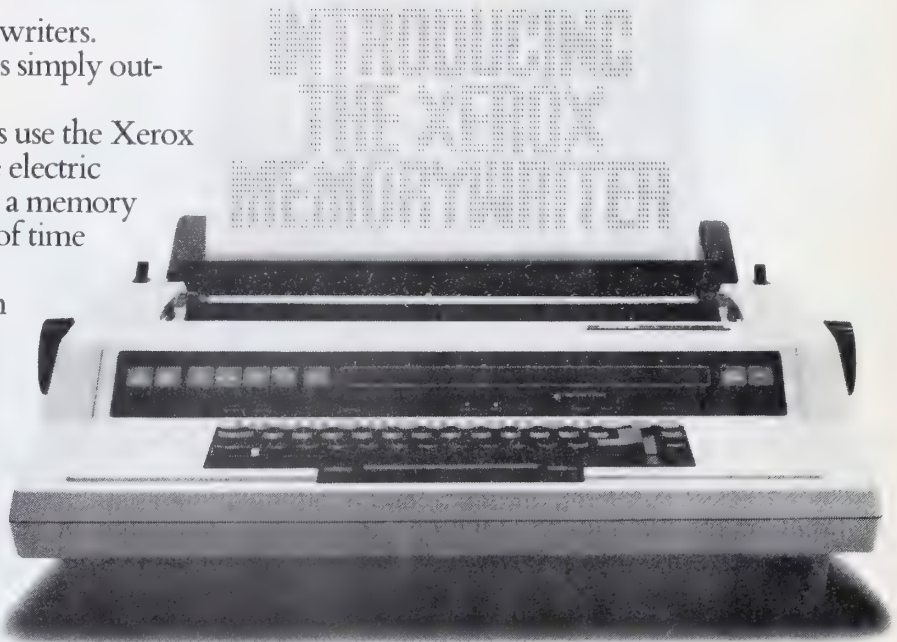
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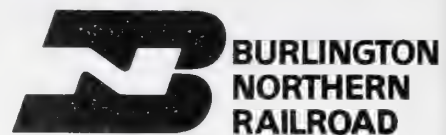
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Follow-Through

Out of the depths

At 74, Herbert Kunzel is making a prosperous second career out of bankruptcy. Nine years ago he came out of retirement (from then-healthy International Harvester) to preside over the wreckage of C. Arnholt Smith's bankrupt Westgate California Corp. (FORBES, Apr. 27, 1981). Now he is tackling yet a bigger disaster as the newly appointed chairman, CEO and president of Itel Corp., the billion-dollar computer-leasing company that collapsed late in 1979. Why? "I still have a lot of energy, and this is a challenge and an interesting job."

A challenge it is. Itel is one of the most complex Chapter 11 reorganizations ever. Kunzel's predecessor, James Maloon, sold off the moneylosing computer-leasing division and a string of others and negotiated a reorganization plan before bowing out. Kunzel must get this plan confirmed by Itel's creditors, implement it and build a management.

He admits it will be tough. "Itel's much bigger than Westgate. We were lucky at Westgate because we were able to subordinate a lot of the claims against the company." The \$61.5 million sale of Westgate's airline that Kunzel masterminded also helped. He puts it modestly: "It made a pretty fair return for those remaining shareholders and creditors." Itel faces a far longer list of creditors, in line for more than \$1.4 billion.

To further complicate things, Itel's continuing operations—a financial services division and railcar and shipping-container leasing—have been hard hit by the recession, forestalling the potential advantage of Itel's big loss carryforward. Kunzel is still optimistic. "They are both viable businesses, and we're doing as well as we can under the economic conditions."

Kunzel got into the salvage business when a San Diego bankruptcy judge tapped him to handle Westgate. His eight years of wrestling with the case made at least some of Westgate's unfortunate shareholders almost whole again, and Kunzel himself collected \$1.3 million in fees. His one-year contract with Itel (where he is already a director) should bring him another \$200,000, plus possible bonuses. After Itel? He chuckles. "By then I'll be 75, and I probably ought to go fishing and hunting and play with my grandchildren. But I thought I'd retire after Westgate. . . ."

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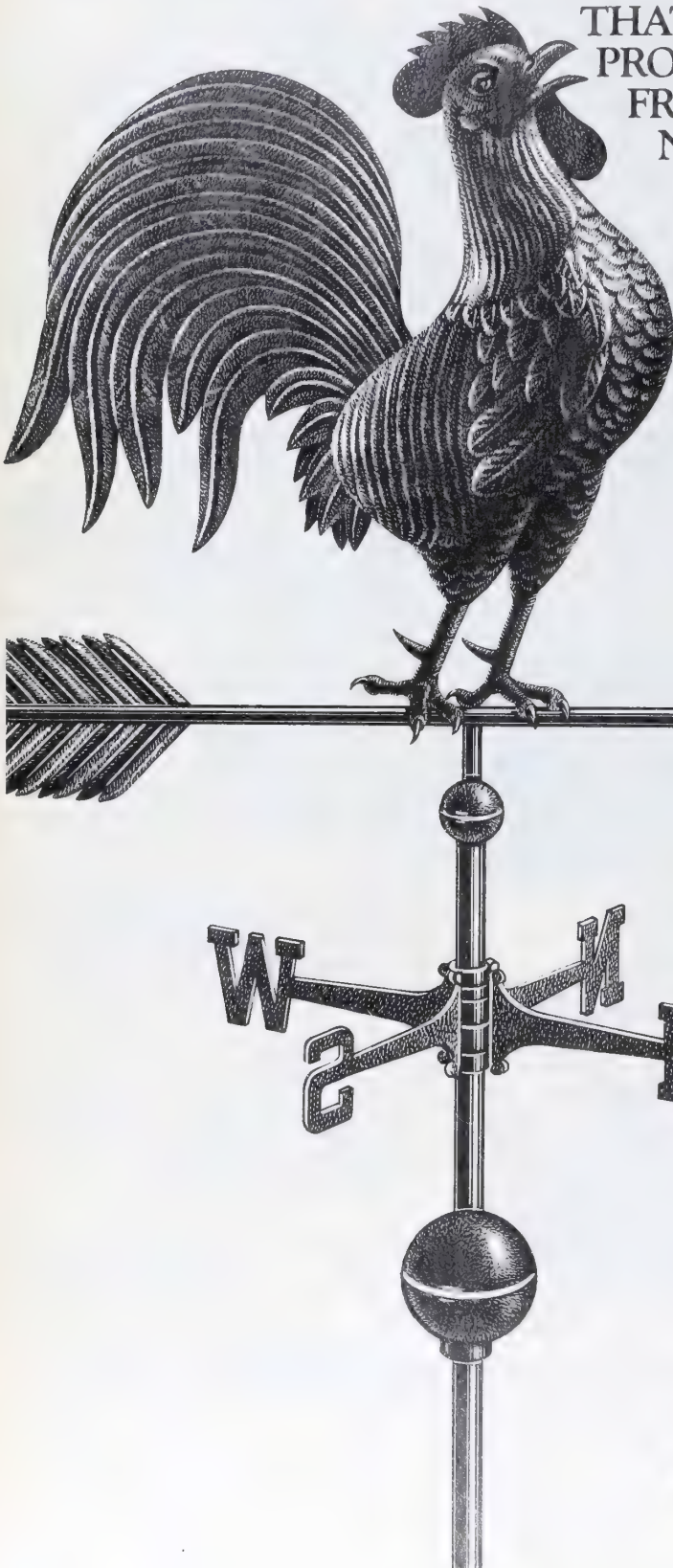
for liability resulting from "unauthorized computer access." Previous coverages in this area dealt with errors and omissions and property loss or damage. But with the advent of a sophisticated new era these traditional coverages simply didn't address the new range of exposures that result from telephonic vandalism and computer crime.

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Readers Say

Shortsighted signals

SIR: American business management has been accused by many of being short term in their planning. It should come as no surprise. One signal that comes from Congress and the Administration is that our economic policy is always in a state of flux and that it is driven for the most part by political aims. What could be a stronger signal to business to limit its risk?

—Allan Douglas
Belleville, Ill.

Gaseous detente

SIR: The deck of your article "Embracing the bear" says, "The Soviet-Western Europe pipeline deal would strengthen the Soviet economy. But is that necessarily bad for the U.S.?" (June 7). Why don't the U.S. government and corporate leadership look into also building a large-size gas pipeline from the Siberian gas fields to extend east across Asia to the Bering Straits, cross them, and connect to the new gas pipeline built from the Alaska North Slope down to the lower 48 states?

—Jack Perfect
New York, N.Y.

Cosmetic accounting

SIR: The accounting changes ("Accounting life preserver?" July 5) proposed for mutual savings banks' bond portfolios are shocking. They would obfuscate the perilous financial condition of these institutions.

The banking industry needs to face the consequences of past mismanagement, not sweep them under the rug.

—Seth A. Klarman
Boston, Mass.

Myopic union

SIR: "Old" Pullman agreed to labor contract terms with the Steelworkers of America which doomed it in today's competitive race; "new" Pullman won't make that mistake.

My prediction ("Bye-bye, boxcars," June 7) that our Bessemer plant would have no union or some union other than the United Steelworkers is a prediction that the employees we hire will not want a union that has repeatedly put its national policy or reputation ahead of the interests of local

workers. In addition to our own experiences, I have read about Steelworkers forcing plant shutdowns rather than accepting contract concessions at Bunker Hill Mines, Alcoa-Mobile and recently U.S. Steel-Fairchild, Ala.

—Jack R. Kruizenga
President,
Pullman Standard Inc.
Chicago, Ill.

Look at those buttons

SIR: Where in the world did Robert Straetz (June 21 cover) find his tailor?

—Everett J. Landers
Oldwick, N.J.



The cover artist, not the tailor, outfitted Mr. Straetz here.—ED.

Higher base

SIR: In the article, "Did inflation whip you?" (Apr. 26), Rolex was said to have "led the parade" of price hikes in a diverse market by "jumping 894%" between 1967 and 1982. Rolex Day-Date with matching bracelet in 1967: \$1,200, not \$800. Percentage of change in 1982 with Day-Date at \$7,900: 563%, not 894%.

—Rene Dentan
President,
Rolex Watch U.S.A. Inc.
New York, N.Y.

Sheltering a poor return

SIR: Our firm did a study of public oil and gas programs ("Should you take shelter?" Apr. 26) in 1981 to determine what programs have consistently paid out a 20% return. Only 3 out of the 70 programs analyzed produced these results. It's amazing that millions of

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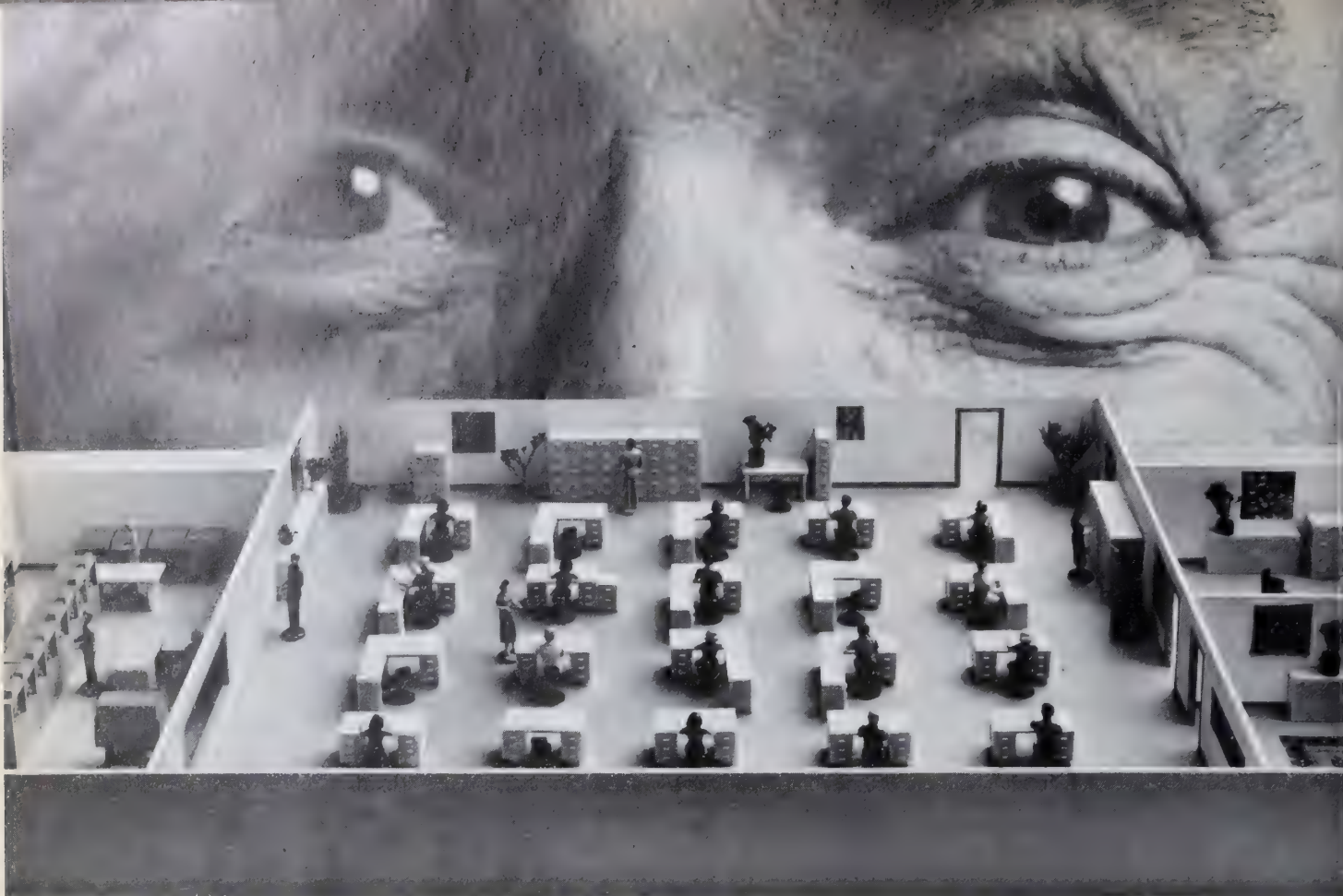
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Readers Say

dollars continue to be invested in oil and gas drilling programs.

—E. Ronald Lara

Lara, Millard & Associates
Falls Church, Va.

Defining a multinational

SIR: In your listing of the 100 largest U.S. multinationals you attributed only \$1.7 billion in foreign revenue to Caterpillar Tractor Co. This figure was derived from data in the company's annual report on geographic segments based on the location of the manufacturing operation. It is more appropriate, however, to base foreign sales data on dealer location—which for us comes to \$5.2 billion. This figure suggests Caterpillar ranked 17th on the list of largest multinationals, not 64th as you reported.

—Donald Niemi

Manager, Public Information,
Caterpillar Tractor Co.
Peoria, Ill.

For the purpose of measuring multinational companies, *FORBES* does not count export revenues. Our figures for all companies are consistent in this regard.—Ed.

U.S. did it first

SIR: A comment on the letter from Dr. J. Rivas-Micoud (*Readers Say*, June 21) regarding the sacking of Washington by the British in 1814. The burning of the White House was in retaliation for the sacking of York (now Toronto).

American forces destroyed all the public buildings, including the legislature, and carried off the Mace, symbol of authority. It reposed in Albany until it was returned through the efforts of Franklin D. Roosevelt.

—Terence O'Dell

Ottawa, Ont.

Yankee propaganda

SIR: Your reader from Boothbay Harbor asserts that "the Civil War proved that cavalry was obsolete" (*Readers Say*, July 5). If Jeb Stuart had turned up with his Confederate cavalry when he was supposed to at Gettysburg during the War of the Northern Aggression, we might still be using cavalry on special occasions in the Confederacy.

—William W. Stevenson

Charlottesville, Va.

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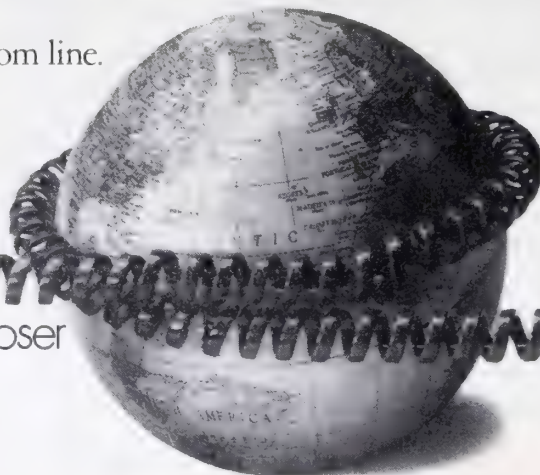
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	Discount	1.78	1.00	1pm-6pm
	Economy	1.42	.80	6pm-7am
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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

PUTTING AMERICAN TROOPS INTO BEIRUT WOULD BE

an action of such no-win craziness that one feels those urging the President to do it shouldn't be in positions to.

THE EMPLOYED AN EVEN BIGGER CONCERN?

The record number of unemployed is the worst aspect of our worst recession since the Depression. For the jobless, it is very rough sledding.

But an even stronger effect on the economy comes from the huge number of the employed who are growingly concerned for their own jobs. Worried, they stop spending to the degree they can. Thus the 9% to 10% unemployment rate has an impact multiplied several times its rate.

When half the nation's earners pull in their horns, soon

service providers and manufacturers curb plans for growth, for modernizing. Entrepreneurs find it even tougher to get the capital needed to get going. New business starts stop.

As elections near, politicians begin making Ted-Kennedy promises to help reduce unemployment by government make-work—leading, of course, to bigger deficits, higher taxes and refueled inflation.

It may be timely to remind 'em that such measures would not appeal to the 90% who *are* working.

OVER TAIWAN, THERE'S NO BEATING AROUND THE BUSH

with China, as I'm sure now even the Vice President knows: If we continue to supply arms to Taiwan, China will put relations with us into the deep freeze, regardless of logic or cost.

A week or so before Henry Kissinger had his sudden heart bypass operation, I sat with him and his wife and two other Americans around a round table at the Chinese U.N. Mission in New York, with their ambassador to the U.N., his wife and three of their other key people. It had not been long before, in China and in the U.S., that their topmost leaders, including Vice Chairman Deng, had exploded over the Administration's plan for huge additional arms sales, including advanced fighters, to Taiwan.

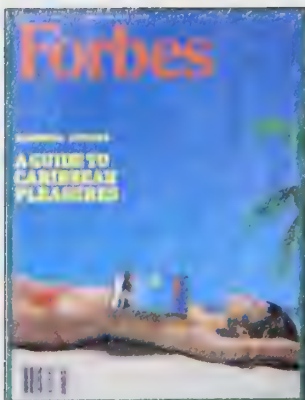
The vehemence, bordering on vitriol, of their reaction seemed as unexpected in Washington as it was unequivocal, unleavened. I suggested that, their own internal politics aside, they shouldn't actually be so exercised over our

meeting an obligation that had existed when our friendship with China officially bloomed again, and that, over time, this resupplying would dwindle away.

"Given our mutual great problem with the Kremlin, surely you don't mean to put on ice our significant and growing rapport over this matter?" I asked.

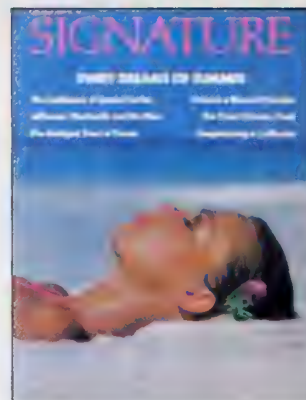
There was nothing inscrutable about the answer. It was chillingly emphatic. To Beijing, this was no matter of words and diplomacy, was in no way subject to soothing phrases or any sort of papering over.

It may be hard for us to draw an analogy, because we've never had a part of our United States break away (despite the vocalized temptation on the part of the rest of the country to disown N.Y.C.). But I came away that evening convinced of China's dead seriousness on the subject. No amount of Bush-whacking will change their stance on continued U.S. arms for Taiwan.



YOU MAY RECALL THE MISSIVES

some readers sent us about FORBES' Jan. 18 cover illustrating "A Guide to Caribbean Pleasures." *Signature's* recent cover has a striking similarity but isn't quite abreast of FORBES.



"DEAR ABBY" WRITES

"Malcolm, this is too good not to share," and she encloses the following letter that appeared in the *Los Angeles Times*.

Getting Things Straight

Now let me see if I've got this straight. . . .

Argentina sends 10,000 troops to overwhelm 1,800 shepherds and then accuses Great Britain and the United States of aggression. Israel, friend of democracy and implacable foe of fascism, sends jet fighters to the neo-Nazis in Argentina, who are using them against U.S.-supported British forces who are attempting to restore democracy in the Falklands.

The magicians of Buenos Aires

(they make people disappear), who are themselves implacable foes of communism, welcome arms and aid from Cuba and the Soviet Union. (I foresee a new smash Broadway musical about Argentina called "Strange Bedfellows." It will be a comedy.)

Iraq, abandoned by its Soviet friends and bombed by the Israelis, is now at the mercy of deeply religious Iran, which has received help from atheist Russia and infidel Israel. The Iranians have thanked the

Jews by announcing their readiness to fight a war against Israel. The Palestine Liberation Organization, which is being pushed around Lebanon by the Israelis, has requested help from Turkey, a NATO member and ally of the United States, which supports Israel.

In Rome, President Reagan fights to stay awake. Meanwhile, in Congress. . . .

Stay tuned.

ALEXANDER LAND,
Santa Ana, Calif.

IF ROCKY HAD STAYED, SO WOULD FORD

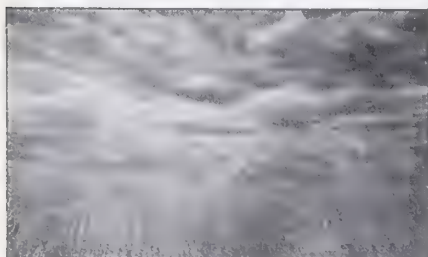
In reading Joe Persico's book on Nelson Rockefeller (*The Imperial Rockefeller*), I was reminded again of something that lots of us felt and said before the 1976 Republican

Convention. If Ford hadn't dumped Rocky from the ticket to placate those far-out Righters (who never can be), he'd have been reelected.

THAT PHOTOGRAPHS CAN BE ART

in the same sense that paintings sometimes are—and at prices comparable to pigmented canvases—took me a long

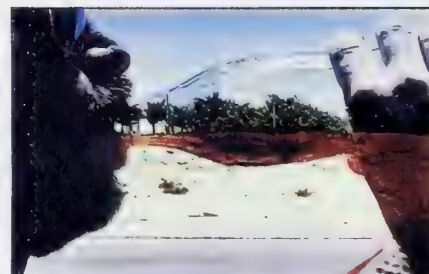
time to comprehend. But these three from son Robert's FORBES Collection persuasively make the point.



Lawrence McFarland's *Wheat Fields* pictures the West as dramatically as any canvas. It conveys the scope of "those amber waves of grain" that so much of the world now depends on.



Lewis W. Hine's *Joan of the Mill* (1907) probably had greater impact than the Mona Lisa. Obliterating exploitive child labor can be attributed to Lewis Hine as much as to anyone.



Randy Green's *American Liquid* arrestingly reflects more about America's Coking of the world than any of the constant pictorial efforts on the same theme that I've ever seen.

BOOKS

Halfway Around the World—An Improbable Journey—by Gavin Young (Random House, \$16.50). This British journalist turned a lifelong dream into reality—wandering, on most anything afloat, from Piraeus to Canton. He tells well his incredible adventures aboard some of the most unlikely vessels that ride the



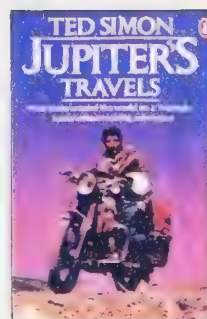
world's seas. No matter how often you've dreamed that dream, you'll gladly settle for doing it precariously via the account that *New York Review of Books* describes as Gavin's "heroically unnecessary journey."

Excerpt: When I told the captain about the creature who had threatened to stab poor Mr. Pavlides, he laughed. . . . "We've all kinds," said Captain Musa. "If you meet some of these men ashore, they'll demand your money. If you don't hand over, they'll—"

"Slash your throat!"

"First slashing themselves and yelling that you've attacked them. They'll claim self-defense, and though the police may not believe them, meantime you're dead."

Jupiter's Travels—by Ted Simon (Penguin Books, \$4.95)—is an even more adventurous travel tale. This time the realized dream was going round the world on a motorcycle. Four years, 63,000 miles and 54 countries later this "motorbike Magellan" was a very different human being from the one who started out.



Here's the ideal read for anyone boredly plane-ing over continents and oceans.

Excerpts: With coffee and a cigarette I settle back into the astounding hush of the desert and remember, and then a really fierce flood of joy comes rushing over me. Just look at me. Look where I am. Isn't this too bloody fantastic for words! It's me here, not Lawrence of Arabia or Rudolph Valentino or Rommel and the Afrika Korps. Me, and this little machine, we made it here. . . . We English are not always kind to our foreigners and it is a sobering experience to have the tables turned. In the good old days, I suppose, one would have spoken English at the top of one's voice until the natives just naturally gave way, but then we had Queen Victoria to fall back on.

IN SOME CIRCUMSTANCES, MIRAGES

save lives that reality would lose.

FORBEARANCE ENABLES ONE

to bear burdens better.

THE MISSING INGREDIENT FOR AN ECONOMIC RECOVERY

By M.S. Forbes Jr.

The recession is over, to hear most economists tell it. If so, the slump's ending is most unusual in one respect: There hasn't been an economic recovery in modern times that wasn't preceded by a vigorous rally in the stock market.

How vigorous?

Stock prices usually hit their lows anywhere from three to eight months before the economy does, and from there they move up on average by at least 20% by the time a recession is over.

In 1974, for example, the market bottomed in December and the economy turned around the following March. During the 1970 recession, stocks reached their lows in May and the economy was rebounding by November. Even the brief 1980 recession saw the pattern in truncated form: Stocks bottomed in April and the recession officially ended in July. By then, equities had jumped over 20%.

Stocks hit their nadir (one hopes) in mid-June. Many experts believe

the economy bottomed in May or June. But if the pattern of stocks as a leading indicator still holds, we shouldn't expect the recession to end until fall at the earliest.

What gives?

Perhaps this is the exception that proves the rule. Don't bet on it, however. The market represents the hopes and fears of millions of investors. The economy is people, too, and if people aren't willing to take risks as investors, they're not likely to take risks in building factories or in buying things that are not absolute necessities.

On this, the record is unambiguous: If stocks don't move up, the economy won't either.

Even if we get economic growth for a few months, that doesn't mean the slump is finished. During the 1969-70 recession, the economy rose for several months, but then dropped to new lows. The same thing happened during the second quarter of 1974—economic activity was up a bit—in the midst of the worst economic contraction since the 1930s. What we may be seeing

now is the economic version of a bear-market rally.

Until the Dow Jones industrials go past the 950 level and the S&P's 500s past 130, be wary of those who proclaim that the recession is over.

SUCCESSFUL FAILURE

Remember Jimmy Carter's experiment 2½ years ago with credit controls? Experts regarded it as a disaster. It certainly didn't cure inflation, but it did have one beneficial impact: It scared the daylight out of the consumer, stopping the frighteningly rapid growth of consumer debt in its tracks. Consumer debt as a percentage of personal income dropped sharply from almost 20% then to about 16% this spring. Outstanding debts in millions of households have been pared.

Whether or not consumers will lead the way to recovery, as many economists are predicting, we can thank Jimmy Carter's "failure" for frightening the consumer into a position where he can now at least entertain the idea of beefing up spending.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

CEOs Call the Tune

I once heard William Simon explain how he had gotten to be the bugler for his boy scout troop. "Very simple," Mr. Simon said, "it was my bugle." I have learned an important lesson from sitting in investment committee meetings and board meetings for U.S. corporations over the past five years. CEOs, not economists, make the decisions. Economists can argue themselves blue in the face about what their econometric models say, or what investment spending in the chemical industry ought to be, but Du Pont is not going to build a factory unless Mr. Jefferson thinks it is a good idea. Nor would the company abandon a major project without the CEO's agreement. This is true for large and small businesses alike.

—John Rutledge, president,
Claremont Economics Institute,
Wall Street Journal

No More Liberal Spit?

As for his role as godfather to Washington's amorphous group of neo-liberal politicians, Charles Peters, the founder of the *Washington Monthly*, chuckled and said: "We just think the liberal movement has to change and reject the liberal clichés and automatic responses of the past—for instance, progovernment and prounion, antidefense and antibusiness—for what we like to call 'compassionate realism.' The conventional liberal position has

been to spit on business. I've come to treasure the entrepreneur. I want to help the sick and needy, but somebody out there has to be making the money to pay the taxes to help support those programs. . . . If elections are going to mean anything, the President must be given authority to hire and fire and place qualified political appointees at all levels rather than just the top 2,000 jobs."

—*New York Times*

He is audibly tan.

—**Fran Lebowitz,**
Metropolitan Life

Judicial Injustice

Law and order is no longer just a euphemism for coming down hard on criminals. On the contrary, it summarizes the fundamental aspiration of a democratic society to be free of fear, free of the cruel tyranny of crime.

The appellate courts tend to favor the defendant's technical and procedural rights over questions of guilt or innocence; an error by a police officer or a prosecutor is paid for by the rest of us when a dangerous criminal is allowed to go free. Crimes of violence should be covered by mandatory sentencing laws that require a judge to impose a prison term on a dangerous

felon. The courts should measure their rulings on procedural and technical matters against a simple standard of justice and fair play.

—*New West*

Little Deduction

One lady called the Internal Revenue Service and asked if birth control pills were deductible. "Only if they don't work," she was told.

—Joey Adams, *New York Post*

Low Age, Lower Minimum

Traditional conservatives usually agree that the minimum wage serves as a deterrent to hiring the poor. The minimum wage (now three dollars and thirty-five cents an hour) "prices people out of the market," Thomas Sowell says, adding, "I imagine that we could absorb every unemployed person as domestics or babysitters" if it were suspended. This belief is shared by the economist Walter Williams, who, like Sowell, has been influenced by Milton Friedman. As a start, they would lower the minimum wage for young people. Sowell proposes a rate of two dollars an hour for those under twenty.

—Ken Auletta, *New Yorker*

Candid Comment

Shall I tell you what will soon be the most faithful work of art? A photograph, when it can render colours, as it will soon be able to. And you would have an intelligent being sweat away for months to achieve the same illusion of reality as an ingenious little machine?

—Paul Gauguin, *Gauguin in the South Seas*, by Bengt Danielsson

Don't Swat 'Em!

It used to impress me to watch Father Walsh in Fortaleza, talking calmly or watching television while several of the huge hump-backed mosquitoes they had there fed contentedly on his forehead. By comparison I was agitated as a scarecrow in a gale. He used to say there was no point in killing them once they got started, since the irritation came from the anticoagulant they injected first. If you let them get on with it, the chances were, he said, that they would suck most of the poison out again. It seemed a most rational and saintly attitude, and represented exactly the style of pragmatic holiness they all practised up there at São Raimundo.

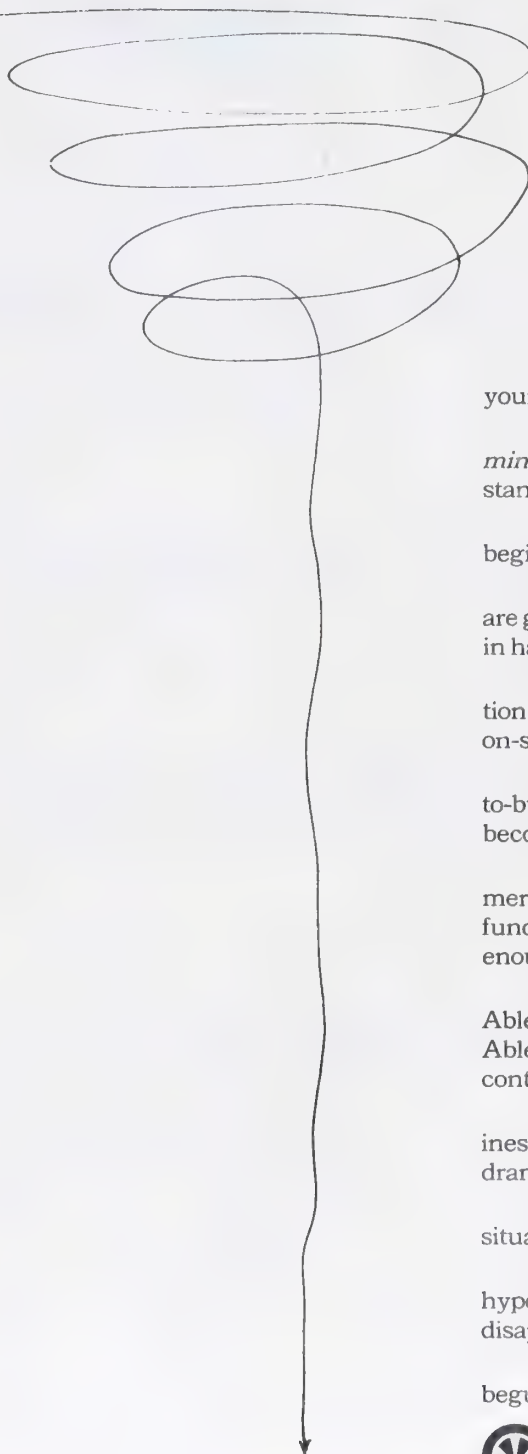
—Ted Simon, *Jupiter's Travels*

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"As I see it, our commitment to the peace process is only credible if our commitment to the war process is credible."

What will you do when "float" goes down the drain?



Time will no longer be on your side.

Payment terms of "2%/10 *minutes*" may become the standard.

It's not far off. It's already beginning.

Right now, experiments are going on to cut float time in half.

Electronic check collection is starting to dribble on-stream.

And electronic business-to-business payments are becoming more widespread.

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You'll need a fluid system. Able to meet funding needs. Able to keep borrowing under control.

The way you do business will have to change dramatically.

We're staying on top of the situation.

Because it's no longer hypothetical that float could disappear.

Somebody has already begun to pull the plug.



CONTINENTAL BANK

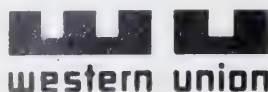
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**Forget the
contradictory signs—
the economy has
clearly bottomed**

**Treasury borrowing
won't crowd out
private borrowing—
here's why**

**The gloom obscures
a good deal of
economic strength**

THE HESITANT RECOVERY

ARE WE OR ARE WE NOT CLIMBING OUT OF THE RECESSION? The answer is: Yes. The question continues to be asked because the recovery is so hesitant. But there's a clincher: a rise, three months old now, in the leading economic indicators.

"In the postwar period, the index has not gone up for more than two months unless a recovery was to begin soon after," says the European American Bank. The five components contributing to the rise through May are: 1) orders for consumer goods, 2) building permits, 3) stock prices, 4) the manufacturing work week and 5) materials prices.

THE INDEX TELLS LITTLE ABOUT THE STRENGTH OF THE RECOVERY but does suggest it will be consumer-led. Business-related components—capacity utilization and orders for plant and equipment—point to a continued slide in capital spending over the near term. That's why the recovery is so hard to detect; it's so spotty.

UNTIL CAPITAL SPENDING COMES ON LINE, perhaps not until 1983, the recovery will be sub-par. High interest rates will also remain a depressant, but for just a few more weeks. They will then fall, despite the fact the economy will be slowly gaining strength. You can discount the scare talk about heavy Treasury borrowing's pushing rates up to record levels. It won't happen. Business loan demand will turn sluggish.

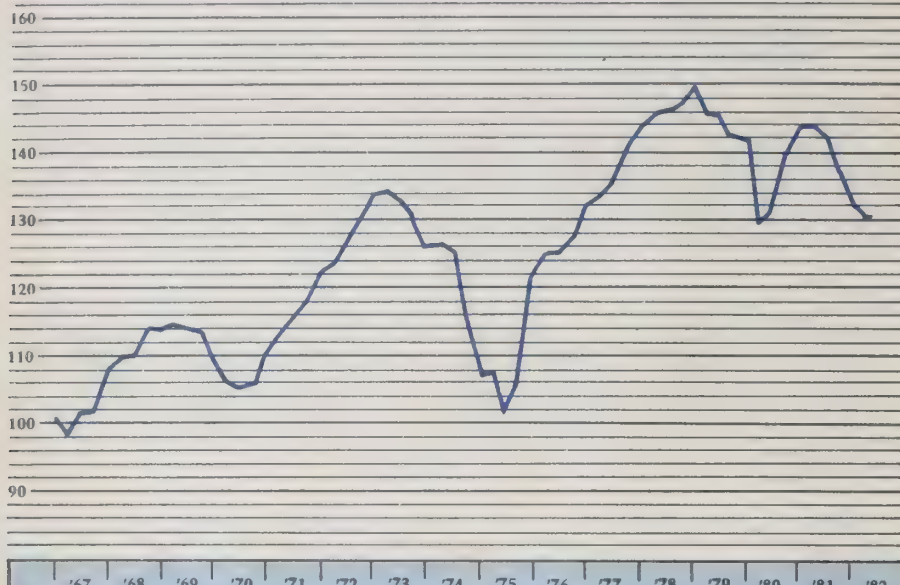
Rates remain high largely because of the recent huge demand by business for short-term money, something that was not supposed to happen during a downturn. Many corporations were taking on debt just to keep alive. Now a gradually rising economy will soon give them a breather—enough cash flow to reduce their debt.

A MAJOR REASON MOST CORPORATIONS WENT TO THE TROUGH SO OFTEN in the first half was to pay income taxes. Because of the new 20% interest penalty on late payments and higher-than-actual estimates of profitability, thousands of tax bills were overpaid. That means an important cause of corporate borrowing—and high rates—during the first half has ended.

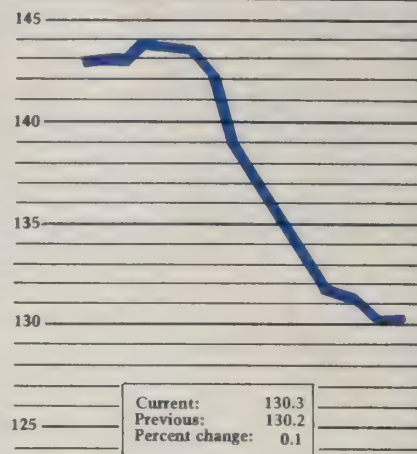
WHAT HAPPENS IF CONSUMERS WILL NOT SPEND? The tax cut that went into effect July 1 will add less than \$5 per week to the average pay envelope. Scare headlines are causing even those with secure jobs to worry. All this is true, but it does not portend a worsening recession; only that the pickup will be hesitant. Amidst all the gloom—unprecedented interest rates, collapse in autos and housing, frightening unemployment rates—the economy has shown surprising strength. The number of people *employed* is high. Many consumers are lightening their debt load. Look for this strength to become gradually more evident in the coming weeks.

The Forbes Index

Forbes Index



12-month close-up



Current: 130.3
Previous: 130.2
Percent change: 0.1

Breaking away. For the first time in more than ten months, the Forbes Index posted an advance. However, not all the components made favorable moves. Unemployment, for example, continues to rise. Claims for May increased by 2.6%. New factory orders, however, rose by 0.6% during the latest reporting period. As a result, manufacturers may soon begin hiring again. On the other hand, businesses are still extremely cautious. During May,

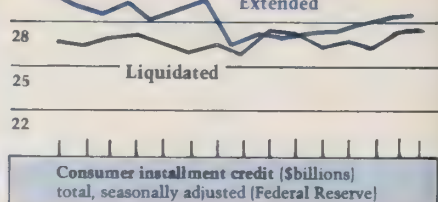
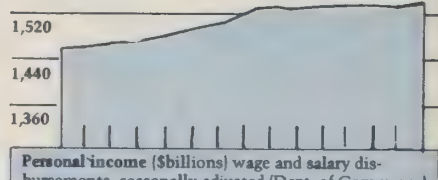
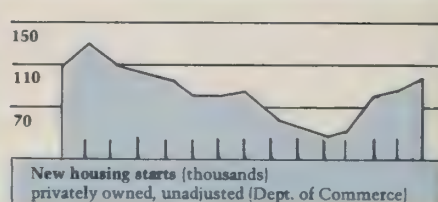
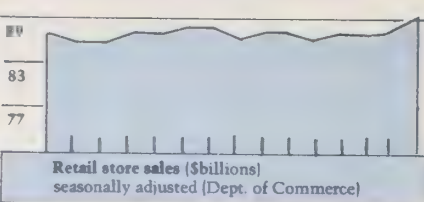
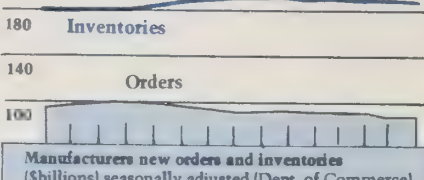
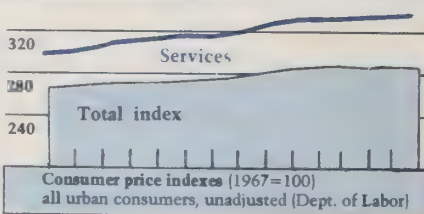
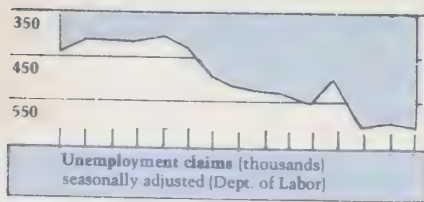
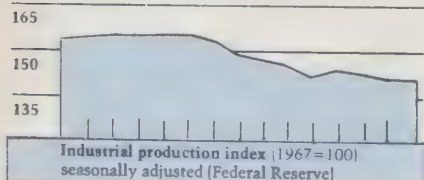
manufacturers' inventories fell by 0.6%, indicating that corporations are more concerned with cutting costs than with spending money.

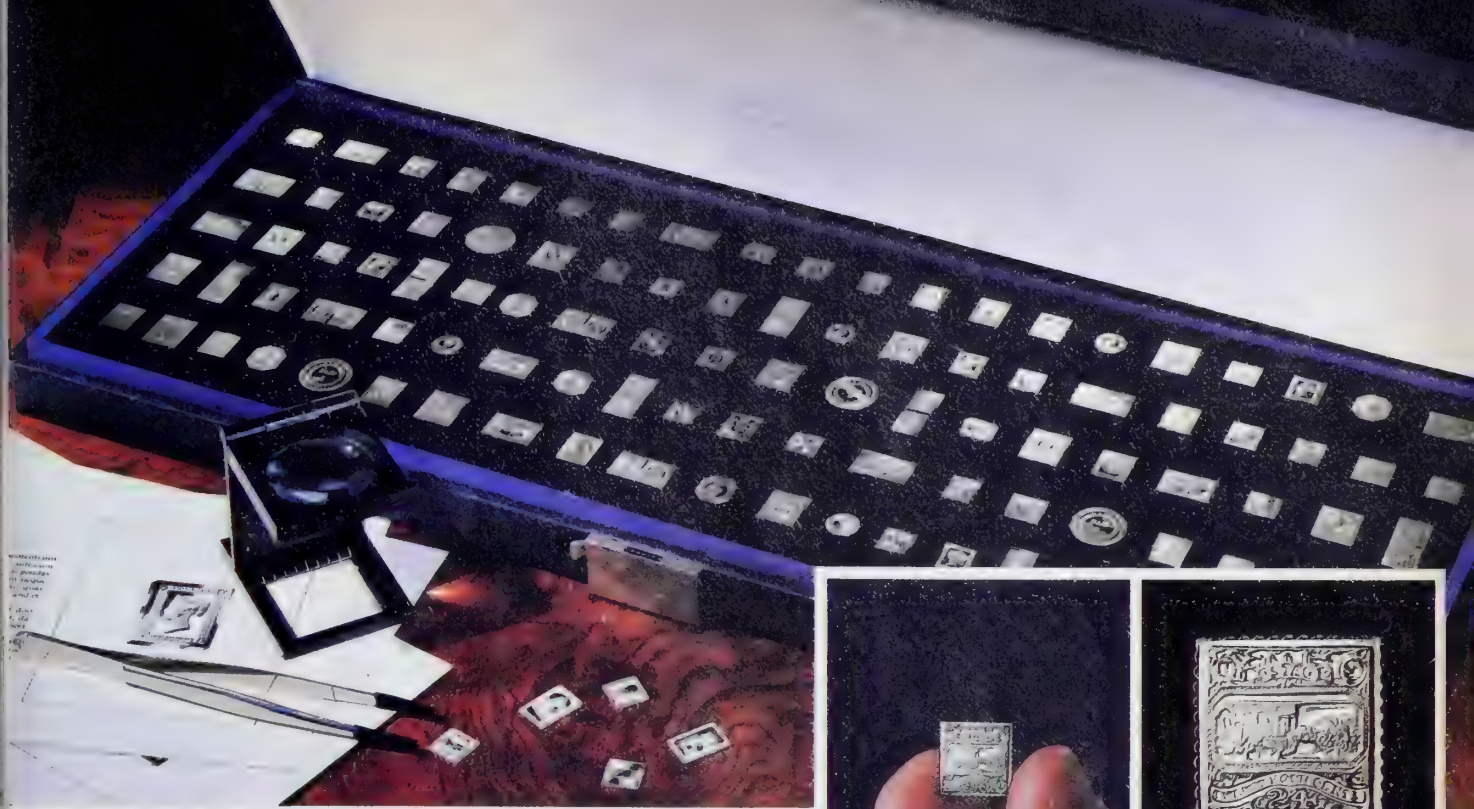
The best news is that consumers, who must lead the recovery, are already starting to spend. Consumer installment debt increased by a respectable 1.8%. The recovery, widely predicted to begin during the third quarter, may be arriving on schedule.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.





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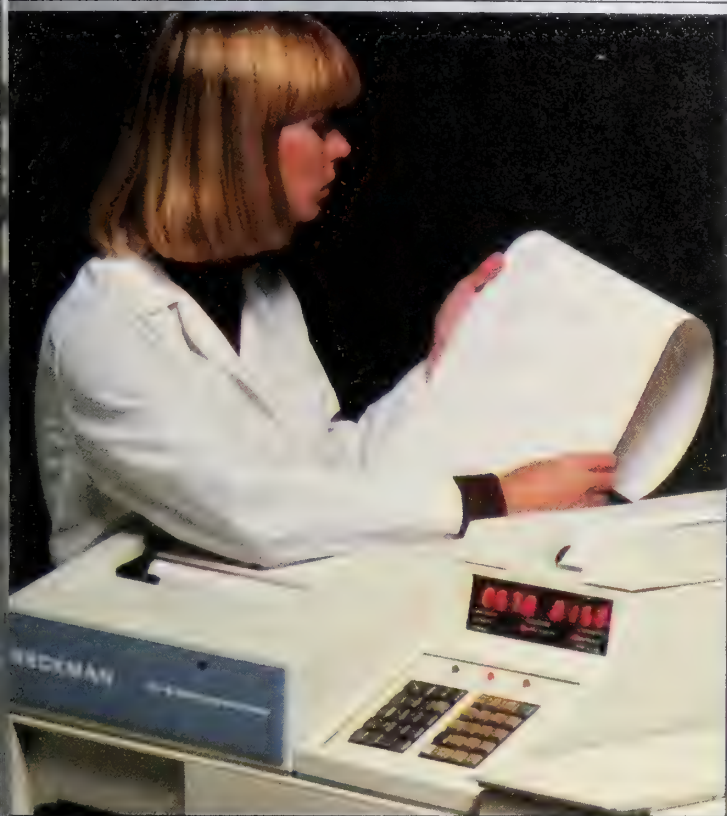
achieved combined compound annual growth
rates of 25% in net earnings and 19% in sales from
1972 through 1981. In 1982, sales will surpass \$3
billion and we'll invest a quarter billion dollars in
R&D, planning sustained growth in sales and
earnings for years to come.

Look into two of the many worlds

Converging

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In *Therapeutics*, progress against rheumatoid arthritis now complements our pioneering pharmaceutical success against ulcers. (Above, left, a scientist tests new cardiovascular agents.)

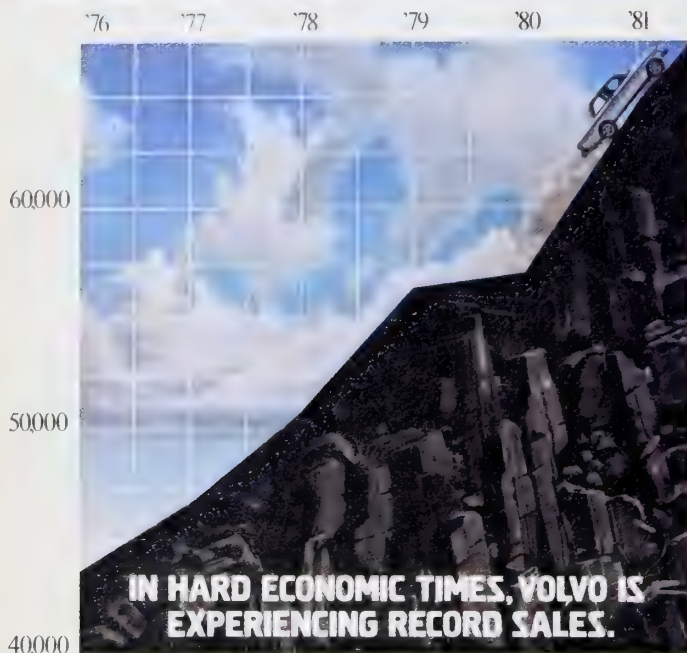
In *Diagnostic Technologies*, we have now

established a sturdy triad made up of sophisticated analytical instruments, consumables for medical testing and a U.S. network of clinical laboratories. (Above, right, a computing spectrophotometer delivers printouts.)

Look into SmithKline Beckman. And look into the future.

Technologies

WHEN THE GOING GETS TOUGH, THE TOUGH GET GOING.



Tough economic conditions produce tough, demanding consumers.

And it seems the harder consumers are to please, the easier it is to sell Volvos.

In fact, sales figures for the first six months of 1982 show that Volvo is the largest-selling European-made car in the U.S.

But Volvo's commitment to satisfying America's increasing demand for durable goods doesn't end with cars.

Volvo's marine power division, for example, manufactures, markets and

services Volvo Penta marine engines throughout the U.S. This division alone posted a 78% sales gain in the U.S. for the first five months of 1982.

The Volvo White Truck Corporation, founded in 1981, is another example of Volvo's commitment to manufacturing and employment in the U.S. We now market a full line of medium and heavy-duty trucks under the Volvo and White brand names.

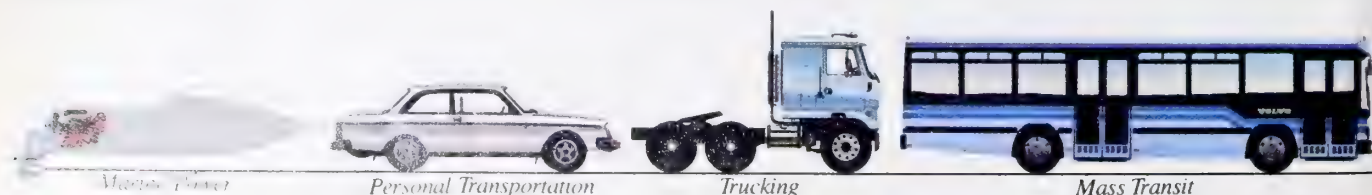
And this year, the first Volvo buses entered the U.S., bringing Volvo toughness to an area where it's badly needed: mass transit. Full scale bus production in the U.S. will begin in 1983.

At Volvo, our philosophy has always been to build reliable, high-quality products to serve man's transportation needs. As we approach our 27th year in the U.S., and the \$2 billion mark in annual sales, it's nice to see that our philosophy is paying off.

Bjorn Ahlstrom

President, Volvo North America Corporation

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VOLVO NORTH AMERICA CORPORATION



Suggestion to hard-pressed managements looking for cheap money: Why not ask stockholders to forego a dividend?

A modest proposal

By William Baldwin

CATERPILLAR TRACTOR HAS 16,700 employees on layoff, is planning to cut salaries 3% to 10% and has just announced first-half earnings off 83%, to 59 cents a share. Its blue-chip shares have dropped by 43% in a year. But it has raised its dividend to \$2.70, vs. \$2.40 last year.

American Telephone & Telegraph paid out \$4.4 billion in dividends last year, then turned around and raised \$3.2 billion in sales of new shares.

Is it in stockholders' best interest to borrow money or dilute the equity in order to pay dividends—which is what many of these companies are doing? It's one reason International Harvester is on the brink today. While it was borrowing huge amounts at ever-increasing interest rates, IH management was paying out common dividends totaling over \$500 million. A prudent dividend policy? Or a profligate one?

Many corporations, anxious to placate shareholders, are paying out cash they desperately need. General Motors distributed \$718 million last year, when it strained to show a profit of \$333 million and increased long-term debt by \$1.9 billion. At a time when employees are taking cuts and vital capital spending is being deferred, is there any reason stockholders couldn't forego a dividend or two?

If they did so, Uncle Sam would share their burden. The U.S., unlike most big European nations, levies two taxes on the stream of earnings from which dividends are paid: a corporate tax at up to 46% and a personal income tax at up to 50% on the dividends. Retained by the company and invested wisely, those same dollars are taxed but once and serve to enhance future earnings.

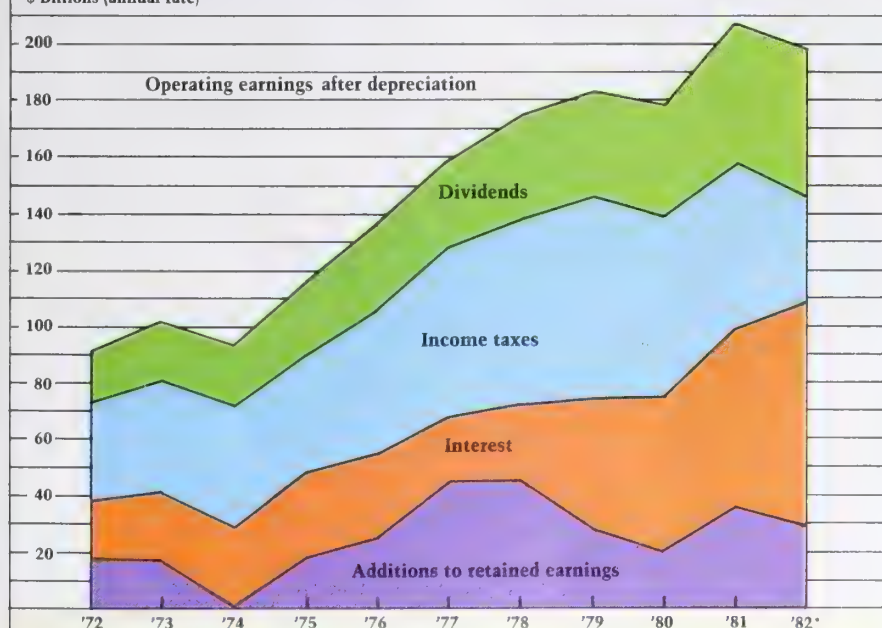
Why, then, do companies treat dividends as sacrosanct? "We have a lot of small shareholders who buy the stock for income," says J. Carter Bacot, chairman of the Bank of New York—a common explanation. His bank has been paying dividends without interruption since before George Washington's first term. It is not about to stop now.

Economists have expended much

Capital offenses?

Dividends were up in the first quarter of this year—to a \$55 billion annual rate for nonfinancial corporations. That left very little for capital formation in spite of a tough profits squeeze. (The profit total represents reported results less an allowance for inflation-caused inventory gains and inadequate depreciation deductions.)

\$ Billions (annual rate)



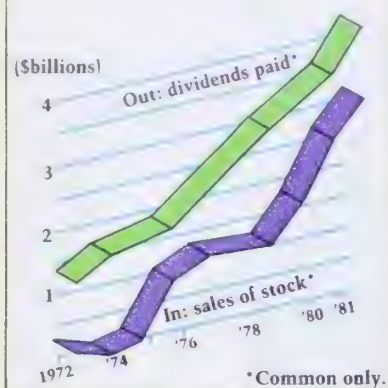
* First quarter

Source: U.S. Department of Commerce; Federal Reserve Board.

Divvying up

These three blue chips have this in common: They're big dividend payers. But one is a regulated utility, one a mature manufacturer, the third a leader in technology, and so the impact of their dividend policy varies.

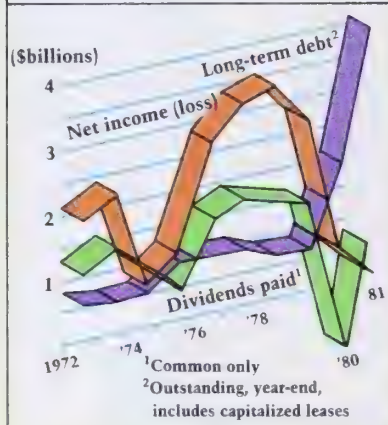
AT&T the merry-go-round



Bell Telephone's steady habits—it just sent out its 400th consecutive quarterly dividend—make shareholders happy. But New York University Professor Edwin Elton thinks the company is chasing its tail. "It's very difficult for me to see where a shareholder is better off if a firm goes out and gets new capital and then pays it out as dividends," he says. AT&T Treasurer Virginia Dwyer disagrees: The \$4.4 billion of dividends came from profits on existing equipment, she says, while the \$3.2 billion in new equity finances expansion. But how do you tell one dollar from another?

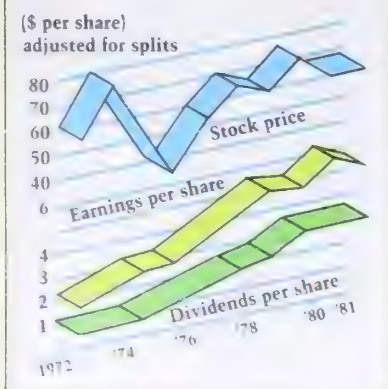
Despite the Japanese inroads and two years of meager profits, General Motors remains the world leader in its industry. But should it continue that 60-cent quarterly dividend? Meeting foreign competition meant outlays last year of \$3.2 billion for special tools and \$6.6 billion for capital expansion. Earnings plus the cash flow from depreciation allowances weren't enough. It had to borrow.

GM retooling versus shareholders



In the exuberant Sixties, Wall Street paid 60 times earnings for IBM and accepted a dividend yield of 1%. The return was supposed to come mostly from capital gains. The stock market debacle of 1973-74 made that idea unpopular; now, it seems, the only good thing about IBM is its dividend yield of 5.6%. But the capital gains advocates of the go-go years were right about the fact that dividends are a poor way to compensate capital. Their mistake was to conclude that stocks could only go up.

IBM when a "growth" stock matures



effort trying to unravel what they call the "dividend puzzle"—the nearly universal habit that, finance theory says, enriches the IRS rather than shareholders. Associate Professor David Mullins of Harvard Business School has recently completed exhaustive statistical work and come up with an answer: Dividend increases boost stock prices, above and beyond the effect of earnings increases often announced at about the same time. "Cash has credibility," he says. "By paying dividends you can convince investors that things are going well." In his world, managers are acting in the best interest of shareholders. Dividends are a "signal."

But a costly, irrational signal in these days of high taxes and high interest rates. And pity the shareholder who always takes it at face value. Braniff, Chrysler and International Harvester all continued dividends after several quarters of heavy losses, aggravating their troubles.

The big gainer is Internal Revenue: The tax liability on dividends exceeds \$10 billion a year. (Some investors, of course, are exempt from current taxes: pension funds, college endowments and, under an exemption granted in 1981, small holders of most electric-utility shares.)

Wouldn't it make sense for shareholders who need income to sell a portion of their investment periodically, thus garnering cash at a lower tax rate and counting on capital gains to counter the dilution of their equity?

But dividends have a powerful constituency. Virginia Dwyer, the AT&T treasurer who answers to 3 million shareholders, bristles at the suggestion that dividends are superfluous. Capital gains are elusive, she says, dividends a surer thing. "In one case [the stockholder] is getting a predictable income stream. In the other he's going to have to sell part of his past investment, and the amount he's going to have to sell will be dependent on the volatile marketplace."

To sell shares, argues Bacot of the Bank of New York, is to violate that ancient precept, Don't dip into capital. Bacot ignores the fact that companies like GM that pay dividends they don't earn are dipping into capital. (And bondholders have been living off capital for a generation, often without even realizing it.)

Another defense of dividends runs like this: Retained earnings are fine for the Digital Equipments of the world, so flush with opportunities that they can plow back all earnings and still turn in a 30% annual growth in earnings per share. What about ma-

ture industries that throw off cash? Isn't that cash better off in shareholders' hands? Management might use it to finance an overpriced acquisition or indulge in capital spending with doubtful prospects for payoff. But that is perhaps the lamest argument of all for dividends. It assumes that management is incompetent to handle the money. If that is so—and it may be in some cases—why own those stocks at all?

What are the alternatives to dividends in companies with more cash flow than they need? Although many businessmen consider the practice almost sinful, buying in your own stock sometimes makes a lot of sense. Corporate stock repurchases, indeed, are just back-door dividends that escape the tax collector. Among the companies that have discovered the trick are Capital Cities Communications, which has in recent years spent about 10 times as much on repurchases as on dividends, and Tandy Corp., whose current yield is nil (*see table*). Tax minimizing, of course, is never admitted as a motivation. "I just thought it was an alternative use of our capital," says Capital Cities

Chairman Thomas Murphy.

The stingy Crown Cork & Seal has paid no dividend since 1956. It has doled out millions buying in stock. Investors who haven't sold have been rewarded in a different way: Earnings per share have compounded at a 25% annual rate over the past 25 years. The company, run since 1957 by the tightfisted John F. Connelly, seems more interested in long-term growth in earning power than in temporary hikes in the stock price.

Repurchasing stock seems to be a strategy gaining favor, says Charles Plohn Jr., a Merrill Lynch vice president, with volume currently running above 100 million shares a year. But the conventional financial strategies—typified by high dividends and costly acquisitions—still prevail.

Some managers regard stock repurchase as a strategy of despair. Echoing Winston Churchill, they declare they did not rise to power to liquidate the great companies whose first ministers they have become. But to others, repurchasing shares is a testament to faith in the company's future. Warren Buffett, the Omaha financier who has thought deeply and well on the sub-

ject, says it is foolish to pay 12 times earnings to acquire an outside company while passing up your own stock at 6 times earnings.

What about American industry? Isn't shrinking your capitalization depriving Americans of jobs? This argument, too, falls apart because the capital released by a company that shrinks its capitalization simply flows back into the capital stream for more efficient use elsewhere.

In short, a stock is not a bond—although many shareholders and many managements fail to understand the distinction. But so long as investors fail to differentiate between a piece of paper that brings current income (a bond) and one that conveys a stake in growth (a stock), many managements will continue to pay out more in dividends than is good for their companies. They will be doing so because it is easier for them that way. Says MIT Professor Fischer Black, after years of studying the dividend puzzle: "Corporations are acting sensibly. It's the shareholders who are acting strangely in marking up the price of the stocks that pay the higher dividends." ■

Generous to a fault

These ten companies are short of earnings but big with payouts.

Company/business	1981		Interest coverage	12 months		Recent price	Yield
	sales (millions)	earnings (millions)		EPS	dividends		
Ashland Oil/oil	\$9,262	\$90.0	2.6	\$2.30	\$2.40	24¾	9.7%
Beneficial/finance	2,324	-11.6	NA	-1.03	2.00	16½	12.1
Clark Equipment/constr equip	1,360	29.9	1.5	1.60	2.20	19½	11.3
Crown Zellerbach/forest prods	3,148	75.3	2.5	1.96	2.30	19¾	11.6
Diamond Intl/packaging	1,289	31.8	2.0	2.33	2.20	37¾	5.8
Emery Air Freight/air transp	579	18.7	2.9	0.82	1.00 ¹	77½	12.7
Fruehauf/trucks	2,175	21.4	1.4	0.45	1.90 ²	18½	10.3
Hoover/appliances	750	-18.8	INE	-1.65	1.00	10	10.0
Pittston/coal	2,228	42.7	3.7	1.10	1.20	15¼	7.9
FW Woolworth*/retail	7,223	81.9	3.5	2.18†	1.80	18¾	9.8

NA: Not applicable. INE: Interest not earned. ¹Current rate: \$0.50/year. ²Current rate: \$1.40/year.

*12 months through May 1982. †12 months through April 1982

Sources: Value Line; Standard & Poor's

Parsimonious with a purpose

Can share buy-backs replace dividends? They worked for these winners.

Company/business	Earnings per share		Change in shares 1976-81	Recent price	Increase from 6/30/76	Current yield
	latest 12 months	Increase from 1976				
Chris-Craft Ind/broadcasting	\$3.41	774%	-51.2%	37¼	690%	nil
Mary Kay Cosmetics/cosmetics	1.86	481	-26.3	27½	511	0.7%
Tandy/retail	2.10	347	-28.9	29	558	nil
Teledyne/conglomerate	19.67	331	-21.5	100⅞	232	nil
Commerce Clearing House/publishing	3.65	288	-28.1	56¼	379	2.7
Marriott/hotels	3.30	275	-28.3	32½	102	0.9
Monogram Inds/metals prods	6.67	225	-49.7	43	202	2.2
Metromedia/broadcasting	14.42	218	-39.6	201	605	2.5
Capital Cities Comm/TV and newspapers	6.24	171	-12.1	70	154	0.3
Crown Cork & Seal/packaging	3.91	38	-7.2	247⅞	37	nil
Value Line Industrial Composite	3.58*	59*	+9.8	26	13*	4.4*

*Fiscal year 1981.

Everyone is excited about the explosive growth of money market funds—including the folks who write bad checks.

Games depositors play

By William Harris

MONEY MARKET FUNDS have changed life for nearly everyone who wants to maximize his income—even crooks. With \$200 billion in assets and the need to process tens of thousands of transactions every day, the funds are a tempting target for check kitters. American Liquid Trust, for example, lost \$827,000 in 1980, thanks to one sharpie. Merrill

Would-be kitters are masters at lots of little tricks that slow up the check-clearing process, like running staples through account numbers or simply tearing the portion of the check on which account numbers are encoded.

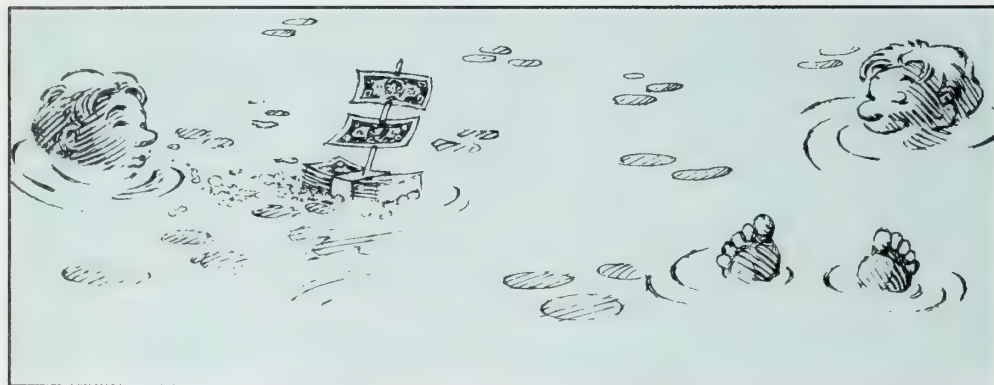
That's why funds need a full arsenal of antifraud techniques. Checks drawn on money fund accounts clear through a bank that presents them in bulk to the fund to authorize payment. Fund managers have roughly 24

According to industry observer Glen King Parker, one Florida resident keeps money in five different funds. Each month he writes checks from one to another, trying to ensure that his deposits arrive on a Thursday. The fund will credit his account by Friday, but the money won't actually come out of his other fund until Tuesday. Do that regularly, and you can earn daily interest on the same money for five days in two separate places.

Try some numbers. Let's assume a would-be floater has \$10,000 in each of five funds earning 15%. Once a month he takes \$5,000 from each fund and passes it to the next, in a financial version of musical chairs. This makes it appear that he has \$15,000 in his accounts for five days each month. The bottom line? Over the year he earns 16.2% instead of 15%—an additional \$616 in off-the-float dividends, just for the price of a few stamps.

All this isn't illegal—but there is a thin line between playing the float and kiting. Another variation involves making money fund deposits with checks written on S&L NOW accounts, which are outside the Federal Reserve System and take that much longer to clear. Again, you earn interest on both accounts during the delay.

How many of the over 12 million money fund shareholders are up to such tricks? Nobody really knows, but the game may be getting new players every day. Enjoying the high-yield float is a scheme that seems likely to catch on fast—especially among retirees with lots of time and an eye for maximizing inter-



Lynch also lost a large sum—rumored at \$750,000—but the company refuses to go into details.

"No one likes to talk about it, but there have been a number of sizable losses in this industry," confirms an executive at Provident National Bank in Philadelphia, a leading money market funds custodian. Fund managers are particularly tight-lipped. If you listen to them, fraud has been very much a problem—but only for the competition.

The rubber-check crowd, however, is obviously reaping dividends. The funds are particularly vulnerable to an age-old ploy called kiting, which involves making withdrawals against deposits covered by bad checks.

hours to do the necessary accounting. Running a largely mail-order business brings particular vulnerability. So does the ease with which anyone, sight unseen, can open an account.

In the rush to set up shop, many fund managers didn't bother with enough accounting safeguards. Business was too good to worry about crooks. What's more, at least one executive claims bankers were slow to offer advice about defending against kitters. But as losses increase, the funds have been stepping up efforts to limit their vulnerability.

Not everyone who tries to squeeze the funds, of course, is a criminal. Lots of people are reportedly increasing their yields by playing the float.

est income.

There have been, of course, many ways simply to steal from the funds. One story circulating within the industry involves a large brokerage firm. A man walked into one West Coast branch office to open a money market account, then walked into a different branch office and redeemed his shares. Guess what. The original check used to open the account bounced.

Today most funds are "aging" deposits. You earn dividends from day of deposit but no withdrawals for 15 days or more. Some funds such as Franklin now refuse any deposits into existing accounts if drawn from another money market fund, and others

say they are not so quick to redeem large amounts. On top of that, fund managers are watching active accounts carefully. "We have asked a dozen people to leave our fund during the past year, including a minister and

a rabbi," says Bruce Bent, president of Reserve Fund, "to stop the funny business." Were they kiting? "Attempting to," says Bent.

Seaboard Surety Co. of New York is now writing insurance policies spe-

cifically designed to protect funds from uncollectible checks. Jim Monroe, special risks manager, has already sold five such policies. He will not say to whom, but admits he has already settled one \$20,000 claim. ■

Are savings and loan associations doomed? You won't think so if you talk to the folks who are starting new ones.

"A million opportunities"

By Jeff Blyskal

WALTER FALK, CHAIRMAN of Miami's Lincoln Savings & Loan, sounds as if he has been locked in the vault. During a period of merge-or-die S&L combinations and regular headlines about capital shortages, Falk's two-year-old thrift institution has done very well, thank you. "This is the greatest business to get into these days," says Falk.

He isn't kidding. Last year Lincoln earned \$378,000 on its \$65 million asset base. That gave Falk a 13.6% return on equity *vs.* the industry median of -11.5%. Just last month, in fact, Falk and others sold stock that cost them \$10 per share to Oppenheimer & Co. for \$28.50. Their profit: \$4.6 million.



Walter Falk of Lincoln Savings & Loan

Start with a clean slate, and you can make money.

Success stories like that are why some experts say opening a new S&L today can be a major investment opportunity. The 215 thrifts born since 1979 are not saddled with low-interest, fixed-rate loans. Meanwhile, their cost of funds is about 12%—the same as that of older institutions. That means their portfolios average a positive spread of 2 or 3 points, *vs.* the industry average of -1.2%.

What's more, most new S&Ls are springing up in such states as Florida and Texas, where housing has boomed and where state banking regulations are particularly favorable. "As a state-chartered S&L, I can do as much as a commercial bank can do, and more," says Larry Davis, chairman of Dallas' six-month-old Skyline Savings, which boasts a six-point positive spread. Davis, for example, can invest in construction joint ventures and trade direct equity positions in real estate. At Lincoln, meanwhile, Falk is putting money into high-yielding Eurodollar CDs.

Tom Nolan, who runs 16-month-old First City Savings of Baton Rouge, acts more like a mortgage banker. He will make a loan for, say, \$100,000 plus two "points," then sell it upstream, to Fannie Mae, for instance. That way Nolan gets back his \$100,000 to lend out again, makes \$2,000 on the "points" and normally gets a 0.375% annual service fee as well. "There are a million opportunities for new S&Ls," he explains.

Statistics bear that out: Roughly two-thirds of stock S&Ls chartered in 1980 and 1981 were profitable in the first half of last year.

How can you get started? Officially, there is a requirement for around \$2 million in equity capital. But the actual cash expense is often far less. A promising group of investors can typically borrow as much as 80% of that money from a correspondent bank—eager for a new customer. Beyond that, the bank will lend the \$500,000 or so it takes the S&L to set up an office.

There are legal hurdles, too. But in an era of deregulation, charter requirements are easier than ever. Initial application costs and legal fees should come to less than \$50,000. Without snags, the entire process can take less than 90 days. It's possible to wind up with a seat on the board for an investment of as little as \$40,000.

Then the fun starts. Stock in new "cream of the crop" S&Ls can often appreciate 40% to 50% per year for the first few years, claims Salvatore Serrantino. He is head of California Research Corp., a Santa Monica bank consulting firm that is now handling

about six such startups per month.

The potential for a buyout is the reason for much of those gains. There are lots of would-be customers, with larger S&Ls expanding through acquisition and an increasing number of nonbank companies on the prowl for diversification in financial services. The money can be good, up to 2.5 times book, says Serrantino. "Investors in Irvine Savings in Irvine, Calif. reaped 5.7 times their initial investment in just six years," he adds.

Colonial Savings & Loan of Ocala, Fla. goes one better. It hasn't even opened its doors yet and is already being snapped up by a group led by

Swiss financier Edmond Safra. Initial investors are being bought out at a 14% profit.

Before you run out and start your own S&L, however, remember that there are significant risks. Much of the success of recent entrants stems from the fact that they are in communities with hearty economies and little competition. But Jamie Jackson, a director of the Federal Home Loan Bank Board, points out that eventually all financial institutions will be on equal footing. For everybody, he explains, "Future success will boil down to good management." That means more than just good startup timing. ■

As Washington flips for the flat tax, its intellectual fathers scorn their offspring.

The flat tax that isn't

By Eamonn Fingleton

SENATOR BILL BRADLEY's plan for a flat tax has run into opposition from an unexpected quarter: Robert Hall and Alvin Rabushka, whose December essay in the *Wall Street Journal* sparked the current debate.

Hall and Rabushka, economists at Stanford, want to tax all earned income and business profits at a flat 19%. For individuals, the only deductions would be a personal allowance and allowances for dependents, so the total revenue would be as great as under the present system.

Their plan was quickly seized upon by Senator Dennis DeConcini (D-Ariz.) and Congressman Leon Panetta (D-Calif.), both of whom introduced bills. But it is the Bradley version, introduced in June—the most watered-down version so far—which has created the biggest stir in Washington. So, why are authors Hall and Rabushka not happy? Because Bradley would allow deductions for mortgage interest and charitable contributions—recognizing in the first in-

stance that the mortgage tax break is the most cherished of deductions for voters whose houses represent their biggest asset. Worse, Bradley's plan is not even a true flat tax. An ambitious New Jersey Democrat, he proposes an income tax rate scale rising progressively from 14% to 28%. This would be enough of a curve to placate his blue-collar constituency and yet a curve flat enough to satisfy the right wing. Meanwhile, he can sell his scrapping of most deductions to the left wing as soaking the rich.

Rabushka complains that Bradley's mortgage and charitable deductions reduce the tax base, forcing marginal rates higher. This perpetuates the current system's distortion of the way Americans spend their money and opens a Pandora's box of opportunities for avoidance. Rabushka says: "The vested interests will argue that their special case is just as deserving as a house purchase or charities."

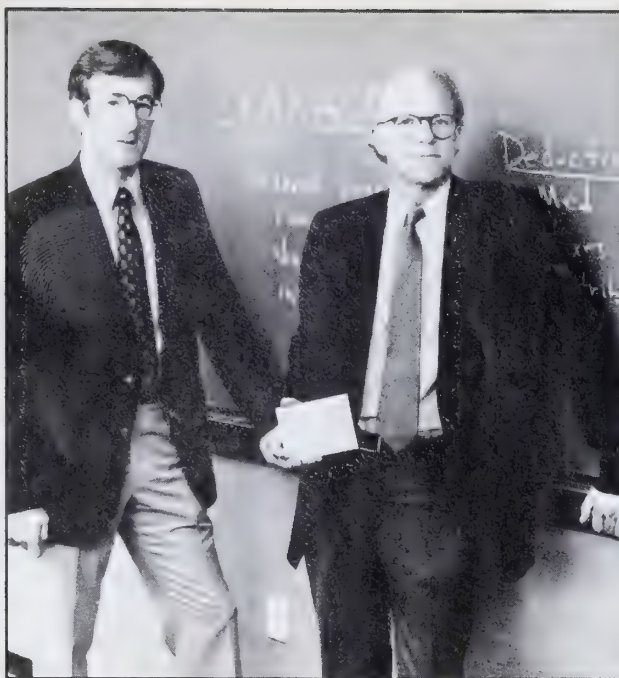
Rabushka attacks Bradley's liberal-backed rising rates scale. He says: "If there is any progressive element, it will be easy for a future government

short of money to raise the rates for higher incomes. We'd soon be back to penal top rates again."

Another crucial part of the Hall-Rabushka plan, he continues, is to tax corporations and individuals on the same basis. That way, there will be no incentive for doctors and dentists to incorporate themselves to avoid tax. As a result, a whole jungle of tax avoidance undergrowth will be cut away. To treat corporations and individuals equally, you need a flat rate.

Bradley has also ignored Hall and Rabushka's suggestion that dividends and interest income should be tax-free. In the case of dividends Rabushka contends that, as these derive from profits that have already been taxed, to tax them would amount to double taxation. Interest payments should not be tax deductible for either individuals or corporations and interest income should be tax-free, they say.

"Bradley would continue to subsidize borrowing and penalize saving," says Rabushka. "It would be another



Rabushka (left), Hall and postcard-size tax form
Look, no leaks.

block to supply-side dynamics."

In addition, Bradley turned his back on Hall-Rabushka's suggestion to scrap the capital gains tax. Their reasoning is that not only is the tax hard to collect, but in most cases it amounts to

double taxation. If stocks, for instance, rise in value they do so mainly because of hopes for current and future profits, which are subject to tax already. Rabushka points out that a marginal rate as low as 19% would minimize leakage—the avoidance and evasion that people feel they are justified in resorting to under confiscatory rates.

You haven't heard the last of the flat tax as a political issue. But don't confuse it with what Bradley is proposing, which is, essentially, tax simplification. Hall and Rabushka supply that, too—their system is so simple even General Motors would only have to fill out a form the size of a postcard, they contend. A true flat tax would involve scrapping the mortgage deduction and would look like a frontal assault on the castles of most

Americans—as Bradley has sensed. Yet to introduce as many compromises as Bradley has will so vitiate the underlying theory as to render it little more than a tidied-up version of the present mess. ■

One thing is certain about Secretary of Labor Ray Donovan: By his actions in office he has angered organized labor.

Argumentum ad hominem

By Allan Dodds Frank

THERE IS MORE BEHIND the charges against Secretary of Labor Raymond Donovan than meets the eye. What most of the media have ignored is that there are potent forces in Washington that want to get rid of Donovan, not for any moral reasons but because he has been chipping away at the power and influence of Big Labor. AFL-CIO

President Lane Kirkland refuses even to speak his name, calling Donovan "Secretary Who?"

What has Donovan done? A lot. Under Donovan's direction, the Labor Department has stopped or drastically reduced hundreds of millions of dollars in annual grants that went to unions to set up job training programs or produce studies. That money also funded the overhead of organizations that as often as not were tied to the

Democratic Party. Donovan aides say privately that the AFL-CIO has had to raise its annual membership tax \$15 million a year to make up for lost government cash.

Donovan also pushed through administrative rules hacking at the Davis-Bacon Act, which raises wages and discourages nonunion contractors on government construction projects under the statutory aim of making government follow prevailing local rates. Donovan's first rule changes dilute the influence union scales have on determining the "prevailing wage" and allow employers at rural sites to pay less than big-city wages. More semi-skilled, lower-paid "helpers" also could be employed.

The 51-year-old former executive and part owner of a construction company makes no bones about his refusal to knuckle under to Big Labor. He listens to advice from businessmen and nonunion associations, especially in the construction field. Donovan is proud he has laid off more than 20% of the department's employees, including many with ties to unions, that he has isolated more than a dozen ranking department officials considered unsympathetic to the new approach and has stripped away busi-

Secretary of Labor Ray Donovan, measuring his accomplishments
What now for organized labor's favorite programs? "Just watch us."



"I have seen in my career where fellows said, 'Hey, I'm not going to work the last two months. It's going to put me in a different bracket, and it's not worth it. I'll take unemployment and go to Florida.' There's something wrong with a system that's used that way."

ness reporting red tape tied to the Occupational Safety & Health Administration and to antidiscrimination enforcement. "There's been an almost missionary zeal in this government and in this department to lay regulation upon regulation in all areas of our lives," says Donovan.

What's ahead? "Just watch us, just watch us," he says. On his priority list for future action are more strikes at organized labor's favorite programs.

Number one on his list is chopping at what he calls fraud in unemployment compensation, which translates to kicking people off the rolls. Donovan, remember, knows the real world of business. "I have seen it in my business career where fellows have said, 'Hey, I'm not going to work in the last two months [of the year]. It's going to put me in a different bracket, and it's not worth it. I'll take unemployment. I'll go to Florida.' There's something wrong with a system that's used that way," he says. He says state agencies that actually pay the unemployment compensation should have to match applicants' forms with Social Security and income tax information.

He wants to promote retraining for displaced workers by enlisting the private sector, with money coming from collective bargaining agreements rather than government grants. "The federal government," he says, "shouldn't really be in the training business."

More trimming of regulations is ahead, including a new program to eliminate regular OSHA inspections for companies with the best health and accident records. He has plans to cut down back-pay awards in discrimination cases.

Donovan also says he will focus on

pension fund abuse (the Labor Department has been derelict here for years), which means investigations of union fund managers for self-dealing and kickbacks. He will pump again for a two-tiered minimum wage (this would require an act of Congress) and for more probes of overcharging by doctors who care for pensioners.

He has some positive programs in mind, too, encouraging cooperation between labor and management. "I guess what I'm saying is I view it as at least possible that someday management won't look at quick layoffs as an economic necessity, nor will labor look to business as some bottomless barrel of profits, but they both will recognize their interdependence."

Donovan's future agenda is likely only to deepen the unions' dislike. The AFL-CIO's Kirkland is already scathing on Donovan. "My feeling is that his post has been largely unoccupied for about a year and a half now, at least in terms of the statutory obligations of the office, which are to advance and defend the interests of working men and women. It has been nonfunctioning in that regard," AFL Information Director Murray Seeger says Donovan is "the poorest Secretary of Labor in anybody's memory."

Donovan has been accused formally, or by innuendo, in forums as varied as a congressional investigating committee, the *Doonesbury* comic strip and *Fortune* magazine, of having had Mafia contacts while executive vice president and part owner of New Jersey's Schiavone Construction Co. But after a six-month investigation—which produced an 11-pound, 14-ounce, 3-volume report—a special prosecutor announced that he had found no indictable offense committed by Donovan. "My character has been strengthened," Donovan says of the siege. "As far as I'm concerned, it's over."

Still, the controversy continues and Donovan could lose his job any day on grounds that he or the White House or the FBI withheld information during his Senate confirmation hearing, or because Senate Labor Committee Chairman Orrin Hatch gets along badly with him or simply because powerful opposition to his reformist zeal makes him what they call in Washington a "political liability."

The charges, the investigation? The whole affair may best be described as *argumentum ad hominem*. You don't attack Donovan's program; there's too much in it that's overdue and popular. So you attack the man instead. Little wonder it's so hard in Washington to go up against entrenched special interests! ■



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Consultants told Conwood Corp.'s William Rosson he would be foolish to fight big competitors in chewing tobacco. So he ignored them and followed his own counsel.

"More art than science"

By John Merwin

FIVE YEARS AGO a flock of consultants cautioned Conwood Corp. President William M. Rosson not to play David-versus-Goliath. "Don't go up against those big market shares," Rosson recalls being told about Conwood's competition in the chewing tobacco business. "It's murder to go against those people."

The consultants had a point. Conwood, with sales at that time under \$100 million, was in the slow-growth, backwoods side of smokeless tobacco—"dry" oral snuff and traditional plugchewing tobacco—used principally by an aging, rural southern population. Use of smokeless tobacco was growing among a younger set using shredded tobacco—as baseball players do—and "moist" snuff, the type endorsed by pro football players. U.S. Tobacco—Skoal and other brands—had about 99% of the moist snuff market. Shredded tobacco competition was tough as a boot, too; Liggett's Red Man label held nearly half of that market. There was always the chance, too, that a tobacco giant such as R.J. Reynolds would wade into the market with waves of promotional dollars.

But Rosson decided that his consultants' advice did not apply to Conwood's business. He had learned the growing and selling of tobacco from his father and grandfather. Memphis-based Conwood—once called American Snuff Co.—has been in tobacco for nearly two centuries. And Rosson, now 60, believed the company's future lay in what it knew best, even though it had diversified in a small way into such household products as bug spray. So Conwood entered the fray with Hawken moist snuff and Levi Garrett shredded chewing tobacco.

Result? Conwood has about 25% of



Conwood's Rosson with cuspidor
"Chewing tobacco is personal."

the \$260 million shredded tobacco market and 7% of the \$305 million moist snuff market. Conwood's sales have grown to \$170 million. Earnings from continuing operations—Rosson disposed of a pyrotechnics subsidiary—have been rising 23% a year since he made the tobacco move, and sales may reach \$185 million this year. Return on equity topped 22% in 1981, doubly impressive because only 6% of capital is debt.

What did Rosson see that consultants could not? "Making chewing

tobacco is more an art than a science," he explains in a silken drawl. "I could take a cookbook from which my wife makes a wonderful cake and bake one myself. It might turn out to be an inch high, even if I followed directions." The point: Snazzy marketing alone won't sell chewing tobacco. "There's no question that you can get a trial on a new product if you get out there and blast," says Rosson of the heavy media campaigns of Conwood's competitors. "But chewing tobacco is a very personal product. People won't use it a second time if the product isn't good." To ensure that Conwood's products are palatable, Rosson and other executives do a little chewing on the job. Their offices are outfitted with cuspidors, some decorative and others the working type, surrounded by rubber mats.

Conwood markets in a quieter, less-expensive way than its flashier competitors. Campaigns start with TV and radio spots on local stations, followed by sampling. "At every plant that will let us, around quitting time we have two guys at the gate handing out our products," says Rosson. The idea isn't to cultivate a new user, but to steal another company's patron. Prospects are sought in occupations where smoking is inconvenient or hazardous—such as construction, mining and some manufacturing.

The market is narrow—only 10% of the population uses smokeless tobacco—and growth has slowed this year because of high unemployment in the industries where chewing tobacco is common. But it is a highly profitable business. Conwood's margins have risen from 8% on sales to almost 11% in the last five years, and the figures understate tobacco's profitability because they include the lower-margined household products that account for 20% of Conwood's earnings.

Now that Conwood—which trades on the Big Board and is 20% owned by employees—has proved itself against larger competitors, does Rosson have any concern for the company's long-term future because of the cloud over tobacco? The American Dental Association opposes tobacco chewing outright, while the American Cancer Society has adopted a concerned wait-and-see attitude. Rosson says he isn't bothered by what opposition has surfaced, plus he notes that cigarette companies, targets of dozens of damaging studies, have hardly suffered over the years. With tobacco operating margins hitting 27%, it's hard to make a case for Conwood to invest elsewhere. That's something Rosson's high-priced consultants can chew on. ■

Won't Pacific Telephone, of all the AT&T subsidiaries, be the poorest orphan at the Independence Day picnic?

On the contrary

By Michael Cieply

WILL DIVESTITURE BE the final blow for Pacific Telephone & Telegraph Co.? Pac Tel is already Ma Bell's battered stepchild, forced by a stubbornly consumerist California Public Utilities Commission to subsist on the nation's lowest local phone rates. It has the Bell System's lowest credit ratings—Moody's A3 for its bonds, Standard & Poor's A- for bonds, BBB+ for preferred equity—and it would be an act of faith to hold out hope for its future.

Under the New Consent Decree that American Telephone & Telegraph Co. signed with the Justice Department in January, Pac Tel is to be cut loose in 1984 with two-thirds of its \$16.5 billion assets, two-thirds of its \$6.5 billion annual expenses but only half of its present \$6.8 billion revenues. Profitable interexchange long-distance-toll and Yellow Pages business is to go to the parent company.

But where you would expect to find inconsolable gloom at Pac Tel's San Francisco headquarters, instead you find Executive Vice President Arthur Latno looking forward eagerly to "the great day" of independence.

Latno doesn't look like a dreamer. A careful 53-year-old manager, he has spent 30 years in the telephone business and currently is planning for Pac Tel's independence, while his boss, Chairman Donald Guinn, is back at AT&T headquarters working on the overall corporate breakup. Still, Latno seems unrealistic. As an independent operating company, Pac Tel would appear to face the grim choice of slashing service to a minimum or raising local phone rates by almost 300%.

The terms of the consent decree seem to offer little room to maneuver.

The operating companies, still regulated monopolies, are prohibited from offering any of the competitive information services that might bring revenues back in line with expenses.

But Latno thinks he sees a way to slip between the cracks of the decree. By the time Pac Tel is fully divested, he explains, 75% of its customers will be connected by electronic switching, making the phone company, in his words, a "giant computer." How to get the most from that high-tech capacity? Joint ventures, says Latno—a series of partnerships that will do those things the phone company



Pac Tel's Vice President Art Latno
A brave new utility.

can't. Electronic mail. Home security. Data-base access. Latno insists such services are allowed by the decree, so long as a partner—and not Pac Tel—offers the product.

Skeptics abound. Some question whether the decree is really that loose, others look at the basic business. "The question," says Adam Leight, analyst with San Francisco's Sutro & Co., "is not whether Pacific can become a high-tech company, but what kind of utility is it going to be?"

Well, there, too, Pac Tel sees grounds for hope. Specifically:

- AT&T has agreed to ease Pac Tel's massive debt burden. The current debt ratio is 58%, but Bell will bring it down to about 50%, within range of the going rate of 45% for the healthier Bell companies.

- Pacific keeps its management structure intact, while other Bell companies, except for prosperous Southwestern Bell, will be forced to combine with one or more neighbors.

- The California regulatory wars are over—perhaps the most critical point of all. John Bryson, president of California's PUC, sees a "very significant" rapprochement with an independent Pac Tel. With AT&T out of the way, the PUC's decades-old dispute with Bell's license and supply-contract charges becomes moot. That alone will raise Pacific's return on equity, now 9.1%, to 10%.

Latno also notes that California is far in advance of most jurisdictions with regard to pay-for-use tariffs as opposed to flat rates, and it has hedged for inflation by basing rates on a forward rather than historical test period. More important, by allowing Pacific to expense rather than depreciate new station connections, the state has helped the company raise a solid 75% of its current construction budget internally.

Add to that the fact that the company serves California, where recession is still defined as a slowdown in growth, and Latno's optimism seems less desperate.

To be sure, a prosperous future for Pac Tel remains a difficult call. The company is still battling a \$1.8 billion back-tax liability resulting as much as anything from a confrontation between state regulators and the IRS. But Latno sees the emerging swan, not the ugly duckling. The company's authorized, though never realized, return on equity is 17.4%, he points out, highest of any company in the current Bell System. To reach that handsome return, however—irony of ironies—the "new" phone company may have to enter competitive business. ■

Was it solely a vision of aging America that led the Limited's Leslie Wexner to buy the sleepy old retailer, Lane Bryant?

"I see undervalued assets"

By Bess Gallanis

CHAIRMAN LESLIE WEXNER of the Limited, Inc. appeared to be watching his customers' birthdays when he spent \$106 million in May to buy \$419 million (sales) Lane Bryant, Inc., the retailer that specializes in clothing for women with "fuller figures." The average age of a Lane Bryant customer is 48, while Wexner has built \$365 million (sales), Columbus, Ohio-based Limited stores by catering to fashion-conscious younger women—20 to 35 years old.

Wexner sees the move as "another step in specialty retailing in a growing market." Census projections show the 45-to-54-year-old female population growing faster than the total female population for the rest of the decade.

But demographics go only so far. Last year 26 million women spent around \$5 billion on clothing larger than size 16. But Lane Bryant, which from its beginnings in 1900 pioneered the "special" sizes, got less than 10% of that market. Even though the company has broadened its line to include catalog items for short women, its net income has risen less than 10% over the last six years and sales have inched ahead less than 5% a year.

Wexner clearly has bought a sleepy company, but on his record with the Limited he seems just the man to wake it up. In 1963, after taking a business degree from Ohio State and quitting law school, Wexner went to work at Leslie's, his father's clothing store. Father and son soon disagreed. "I was con-

vinced that the highest margins were in sportswear," he says, "and my father was equally convinced you needed a full line to attract customers." So with \$10,000 borrowed from his aunt and a bank, young Wexner set out to prove his point.

The first Limited store grossed \$162,000 in 1963. Today, the 422-store chain grosses around \$200 per square foot of floor space—specialty retailing's highest totals—and earns a 6% net margin, compared with a general retailing industry average under 5%. How? By shrewdly combining name-brand fashion with its own only slightly less pricey Hunter's Run and Cassidy labels. The Limited's labels, says Goldman, Sachs retailing analyst Arthur Charpentier, "sets them apart from the department stores and other boutiques." The class strategy is helped along by aggressive biannual

promotions, and the result has been rapid earnings growth to \$22.4 million and a 31% return on equity in the year ended Jan. 31. In 1969 he brought the company public at 20 cents a share; it sold recently at \$20 bid.

Wexner, a sporty bachelor who skis at Vail in the winter and jogs ten miles a day, doesn't win them all. In 1978 he expanded the Limited from a Midwest regional to a national chain at the same time he purchased apparel contractor Mast Industries and started building a new headquarters on the outskirts of Columbus. Earnings dropped by 55% that year. We all make mistakes, is Wexner's attitude: "It's only a shame if you don't bounce back."

Has he made a mistake buying Lane Bryant? After all, his plans call for opening 70 Limited stores this year, at a cost of \$15 million. But having borrowed close to \$100 million to buy Lane Bryant, he faces an additional \$10 million in interest costs, and cash could be tight. Wexner smiles. "I see undervalued assets in Lane Bryant," he says quietly. Where? "In the real estate because we have undervalued leases. There are leases at \$2 per square foot that have market value of \$15."

Is Wexner planning to sell Lane Bryant stores? Not at all. But many of the 207 Lane Bryant stores are too big for a specialty retailer, he explains. Wexner contemplates reducing their size, renting out the leftover space or recycling it as Limited stores.

As for the debt, he is buying \$50 million of spare working capital in Lane Bryant along with receivables he can sell worth \$64 million. Already he reports wringing \$10 million out of the old chain through "aggressive cash management."

With the acquisition, Wexner's Limited becomes an \$800 million (sales) specialty retailer with earnings potential of an estimated \$40 million, \$2.75 a share, \$325 million of assets and \$95 million of stockholders' equity. So pleased is Wexner, who with his mother and sister owns about 40% of the stock, that he implies the Lane Bryant acquisition won't be the last. "I see the Limited as a confederation of specialized businesses," he says. One specialty at a time, in other words. If he does as well with Lane Bryant as he has done with the Limited, Leslie Wexner will be a force to be reckoned with in retailing. ■



The Limited's Leslie Wexner

From the fashion-conscious to the figure-conscious.

BRAZIL: REPORT ON EXPORTS

Despite a commercial deficit of \$2,823 million in 1980, slowing world economy, and increase in world trade protectionism in 1981, Brazil registered a commercial balance surplus of \$1,207 million — the first such surplus since 1927.

Brazil's Minister of Planning, Delfim Netto, points out, "the great advantage of the commercial surplus achieved in 1981 was that by normalizing external accounts, the country could continue to grow and, at the same time, depend less on external resources."

Sales of Brazilian products to international consuming centers grew 15.7% in 1981. This was above the growth rate achieved by the economy as a whole. Benedito Moreira, Director of CACEX (External Commerce Board of the Bank of Brazil), points out, "the growth in exports in 1981 solidified Brazil's position as a seller in the international market, increasing its share of total world sales."



Professor Delfim Netto, Minister for Planning

TRADE WITH ECONOMIC BLOCS

Brazil showed a commercial balance surplus with the majority of the world's economic blocs in 1981. A deficit balance existed only with the Middle East, Africa, Canada and the LAEC.

Exports to the United States grew significantly, from \$3,510 million in 1980 to \$4,111 million in 1981, representing a positive commercial balance of \$627 million compared to a deficit of \$591 million in 1980. Total commerce with the U.S. reached \$7,596 million (16.74% of Brazil's total global commerce). The U.S. maintained its traditional leadership position as the main buyer of Brazilian products, second only to Saudi Arabia as a supplier to Brazil.

Last year, the flow of business from Brazil to the LAEC reached \$7,336 million, up 19.27% over 1980. Argentina continued as the main commercial partner, occupying the 6th position as buyer and 11th as seller.

The European Economic Community (EEC) led commerce with Brazil in 1981, totalling \$8,902 million (19.62% of Brazil's external commerce). Brazil achieved its greatest net result with the EEC, reaching a surplus of \$2,970 million. Basic products dominated Brazilian sales to the EEC (56.23% of the total exported to that economic bloc) followed by manufactured products with 35.6%.

Brazilian interchange with Africa reached \$3,677 million, growing 62.59% in 1981 (8.1% of Brazil's global external commerce). Exports to Africa grew 46.87% over 1980's level, while imports increased 78.97%.

Commerce with the Middle East totaled \$8,018 million last year against \$8,830 million in 1980. This decrease reflected Brazil's efforts to reduce oil imports through its policy for alternate energy sources, allied to a substantial increase in domestic oil production.

ON FINANCING AND FISCAL INCENTIVES TO EXPORT

One of the Brazilian Government's most efficient mechanisms of fiscal and credit incentives for exports is the Befiex Program (Commission for the Granting of Fiscal Benefits to Special Export Programs). Through this program, companies agree to export a set value in dollars over a period of 5 to 10 years, gaining in return raw material, equipment import incentives, and fiscal benefits at the moment of export.

Since the creation of the Befiex Program in 1972 to March of this year, 155 contracts were signed which will bring about total exports of \$53 billion by the end of this decade. 97 of these are with Brazilian-based firms which, according to Camilo Pena, Minister of Industry and Commerce, dem-



strates the joint effort between business and government, solving the country's balance-of-payments problems.

LARGE CONTRACTS

In March of this year, Befiex approved 22 export contracts worth \$17 billion, \$13 billion of which were destined for the automotive industry. The greatest export obligation was taken up by the Ford Motor Company (\$3 billion until 1989) to release its world car, the "Escort." Volkswagen, with the 2nd largest program totalling \$2.5 billion over the next 7 years, will use their program to export to less developed countries.

General Motors signed an obligation with Befiex to export \$1.1 billion from 1985 to 1989. The program will be used to guarantee the exportation of its world car, the "Monza", recently released in Brazil; to establish itself as the engine supplier for other factories around the world manufacturing the Monza; and to guarantee government incentives for one more period.

According to Newton Chiaparrini, President of the Automotive Vehicles National Producers Association, the Befiex program was an important factor in Brazil's increased share of the world market for automotive

industry products. Results from 1980-81 show that the automotive industry was responsible for about \$4 billion in exports.

Minister Pena states that the 155 approved projects guarantee the acquisition of durable items directly from Brazilian industry will total \$5.34 billion, with imports of \$5.87 billion. Investments have already reached \$15.94 billion and 107,294 jobs will be created as a result of these projects.

OTHER INCENTIVES

At the Sixth National Exports Meeting held last April in Rio de Janeiro, President João Figueiredo announced that he had directed the economic ministers to give priority to "the revision, updating and strengthening of our export system, mainly in the areas of tributary policy, financing and transports."

These new mechanisms of assistance to the exporter, both in credit and fiscal areas, are being studied to avoid problems in GATT (General Agreement of Tariffs and Trade) or import protection reactions. Finance Minister Ernane Galveas stresses that the Brazilian exporter will have government guarantees to continue trading products abroad in a healthy competitive atmosphere, without losses.

Despite low world economic activity and an increase in protectionism efforts abroad, Brazil will have a substantial commercial balance surplus for the second consecutive year in 1982, due to its innovative export programs.

Over a 12-month period, from April 1981 to March 1982, the added surplus reached \$1.78 billion, strengthening the expectation that Brazil might export \$26 billion by the end of the year compared to \$23.3 billion in 1981.

ON THE GOVERNMENT'S EXPORTS AND AGRICULTURE POLICY

Brazil's strategy to adjust the economy to the oil shocks of 1974 and 1979 considers three basic objectives: the regularization of external accounts, the fight against inflation, and the change of energy profile from foreign oil sources to other, less-costly domestic sources.

According to Brazil's Planning Minister, Delfim Netto, the main creator of this policy and one of those responsible for its implementation the strategy must give priority to agriculture and exports.



1973: Imagine what a petroleum crisis meant to a country with eight million square meters whose basic transportation is found on the high way.



1975: Now imagine the extent to which the imagination of a people can work when trying to find its own separate way. Brazil created the National Alcohol Program to develop an energy alternative and power its vehicles.



1982: Today Brazil is the first country in the world manufacturing alcohol powered engines and driving vehicles equipped with these engines. Half of the alcohol fuel produced in Brazil comes from the 75 sugar mills united under the Copersucar banner. These same sugar mills produce 48 percent of Brazil's sugar.

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Ernane Galveas, Minister of Finance

Consortiums of Cebrae: a new option for Brazilian Exporters.



Thousands of goods made by small and medium size Brazilian firms, are now within the reach of international imports.

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These consortiums guarantee quality control, delivery terms and production volume, besides being able to offer really competitive prices.

The Brazilian export consortiums are coordinated by a government office Cebrae (Centro Brasileiro de Apoio a Pequena e Média Empresa), which is linked to Sepplan (Secretaria de Planejamento da Presidência da República Planning Secretary). The importer interested in obtaining information on price, quality, quantity, delivery terms etc., might contact Cebrae directly and they will immediately provide the information requested.

The products and services are as follows:

General Handicraft

100% cotton hammocks, galvanized iron fittings for hammocks, built-in and external hammock fittings, hinges and locks, redeslex hammocks (helical springs for redeslex hammocks), portable fittings to set hammocks for use.

Leather trunks, book shelves, magazine racks, sculptures, pith carpets, pith bags, straw bags, racks for dishes, lanterns, light fixtures, jewel-boxes, ashtrays, fancy jewelry.

Glazed ceramics, panels, utilitarian items, straw handicrafts, fabrics, sisals, batiks.

- Ceramic items for decoration
- Birdcages
- Straw and cord items
- Sisal fiber carpets
- Needle-work
- Rafia, jute
- Labyrinth and other lace works

Ceramics

Glazed, colored tiles, also plain colored and decorated ones, ceramic coverings for floors and walls, ceramic unglazed tiles—red terra-cotta, glazed and decorated ceramics, table-ware, refractory items (furniture)

Auto Parts and Accessories

Decorative accessories for trucks, components for road transportation, magnetic switches, spark plugs, filling for steering wheel and voltage regulators.

Medicines

Parenteral solutions, plasmatic extensors, hydrating products, anti-acids, vaccines, antiseptics, gastro-intestinal products, antibiotics (chemotherapeutic) and other anti-infection products, hormonal products, gynecological products, anti-

histamine products, anti-inflammation items, appetite stimulants, analgesics, anti-thermal products, spasm-controlling products, metabolic vitamin activators, energy-producing items, anti-anemia products, cardiological products, tranquilizers, anti-depressive products, anti-parasitic products, cough-combatting products, eyewashes.

Furniture and Decoration

Modulated kitchens, tables, chairs, dormitories, book shelves, cabinets, trunks, dining room items, colonial style furniture, office furniture, love-seats and sofas.

Acoustic boxes, lathe-created parts, drinking-water containers, rustic furniture, wooden items, wooden toys, lathe-created beds, mattresses, marfinite screens and white furniture (chairs and tables for the garden), agricultural carriage, wagons, chariots.

Equipment and Tools for the Wood Industry

- Hacksaws for log for making planks
- Hacksaws with manual vehicle
- Log turning jacks
- Honing sets, circular saws with aligning capacity, winches for the pulling of logs, lathes, knives to cut and laminate wood
- Lathing chains
- Die-cut chains for agricultural and bird-growing purposes
- Industrial equipment for ventilation exhausts
- Boilers (vapor generating)
- Auxiliary apparatus for boilers
- Industrial shredders
- Automatic borers, copying lathes
- Edge-gluing machines
- Postforming machines, blade driers
- Heated hydraulic pressing mills, cold ones and continuous ones

- Blade connectors, transporting rafts and unloading machines for driers
- Elevating tables
- Industrial heat generators, electrical cutting machines
- Pantographic boring machines
- Machines set for the making of mechanical paste and cardboard

Clothing Products

Denim trousers for adults and children.
Denim Bermudas for adults and children.

Denim skirts and shorts.

- Kimonos for women
- Bedspreads, mantles, bedsheets, baby blankets
- Tablecloths
- Fabric items for the bathroom
- Fabric covers for pillows, table decorative fabrics, cloth sets for the kitchen
- Cotton shirts for men and boys
- Bermudas, shorts, dresses, blouses, skirt and blouse sets, gardening sets, long and short overalls
- Nightgowns, blazers and slacks, uniforms in general, doctors jackets
- Bedspreads and bedsheets, small shirts and sets for babies, diapers, pants and plastic diaper bags for babies, pillows

Bathing suits, bikinis, shorts, dresses, blouses, skirts, sets, pants, protective clothing for rain and cold, T-shirts, blazers.

Ladies' cotton shirts with silkscreen applications, lingerie, dresses and maternity gowns, nightgowns, robes, babydoll sets, bikinis, panties, nightcaps, professional uniforms, twine clothing, bed and table cloth sets, children's clothes, patterned fabrics, lycra colants, umbrellas.

Leather and Shoes

Sandals, bags, wooden shoes, indus-

trial gloves, sieves and professional uniforms, safety boots, leather, plastic and fabric belts.

Men's leather slippers, men's and ladies' moccasins, trunks, ladies' utility boxes, bags, school purses, military back-packs.

Sports and Pleasure

Tennis sets.
Equipment for industrial fishing and target shooting.

Games, toys, rulers, school sets, chairs, blackboards, gas ranges, iron pans, sports boats, gardening sets, equipment for boating and metal cutting, rubber items for hunters, sports shelters, football shoes, gloves, tennis shoes, balls and aluminum gadgets.

Electro-Mechanical Items

- Tools for production lines, insulators for epoxy, fiberglass cylinders.
- Protective lighting sets, reflectors, magnetic switches.
- Electro-mechanical projects and installations.
- Manufacture to order of mechanical equipment for boilers, blocking coils, galvanized electro-tools, radio-sounding, automatic capacitors command, ultra-sound machinery, capacitive-level sounding devices and connectors.

Electrical and Electronic Items

- Electronic components
- Fixed and removable fuses
- Water heaters – Electrical, gas-fed, solar-energy fed
- Timers, transformers and industrial vacuum cleaners
- Electro-domestic resistor, ultra-sound, battery-chargers, espresso-coffee machines

Plastic and Flexible Containers

- Plastic, flexible of low and high density polyethylene containers, films in double rolls, big and small bags.

Wrought Products

- Wrought iron and steel parts
- Wrought steel and iron parts, non-ferrous
- Steel micro melting and stamping

Iron Equipment and Tools

- Drilling tools, iron chains, iron rivets, aluminum rivets, iron straighteners, iron wire, wrought parts, lathes, pans, iron nails, re-wrought wires, fence

clips, picks, spades, large and small axes, cutting and collecting spades, hammers, knives, drilling bits, saws, locks, iron items for buildings.

Machines and Equipment

Shoe machines.
Industrial machines.
Machines and parts for the shoe and cardboard industries.

Trolleybus

Sanitation project of transportation and industrial energy.

Project and system of the process control area.

Electromechanical and hydraulic equipment assembly line.

Engineering Service

- Civil construction, sanitation
- Land clearing, paving, buildings in general
- Irrigation, measuring of material and machines, labor, infrastructure and superstructure for railroads.

Marble and Granite

Chocolate type marble, choco rose and champagne type marble, common white marble, marble in blocks, in blades and processed.

Bakery and Refrigeration

Freezing containers and industrial ice cream plants, food-industry bakeries, food-making machines and equipment, freezing chambers and supermarket installations, freezers, insulated truck bodies, coolers and truck bodies for dry cargo.

Equipment for Industrial Kitchens, Laundries and Refrigeration

Coffee making machines and accessories, espresso coffee and coffee grinding machines, equipment for industrial laundries, kitchen and table utensils, washing machines, mixers, peeling machines, auxiliary machines, production of industrial kitchens and stainless steel items, industry and commerce of steel and formica furniture.

Nautical Material

Bathroom boxes, wall finishing. Aluminum and iron window sills. Bird feeding containers. Pans. Dividing walls. Aluminum marcation items. Rubber apparatus, Embarcation lights. Lathe clips. Grass-chopping machines. Wrought parts, Propellers. Chandeliers. Lampshades. Pic-

tures. Statues. Sewage covers. Wrought-iron connections. Iron ingots. Propulsion propeller. Telescopic tunnels. Propulsion axles. Pegs of all dimensions. Clips. Barbed wire. Tacks. Silos. Industrial carriers. Fiberglass. Crystal for doors and windows. Decorative plates. Tables and chairs.

Telecommunications

Transceptors, mobile and fixed antennae, linear amplifiers, telephone couplers, conversors, towers, remote control, static conversor, VHF repeater, vehicle aeriels, patch-phone, pots and capacitors for compensation, transmitting coils, hybrid coils receiving capsules for telephone apparatus, solar energy systems, battery chargers, static conversers, alarm systems, safety systems.

Modus-video terminal, terminal block 10 to 100 pairs/303.

Sundries

Auto parts (rubber products), needles, protectors, pedals, coils, pulleys, starting gadgets, aluminum window-sills and doors, refractory home and kitchen items, perfumes, shampoo, wood products (toothpicks, spades, forks, small spades). Kitchen cabinets, ladders, furniture, plain saw, lathes, sanders, trucks and auto pinnion.

School and office material. Chandeliers and electrical materials.

- Iron or steel wires, uncovered
- Iron or steel screws for nuts
- Iron or steel rivets
- Iron or steel washers
- Iron or steel hooks

Civil Construction Consortium

Promotions Consortium

Construction Material

Plastic covering, elevated working platforms, reinforcement and metallic forms, Duraplac blades, cork covering, wood tiles, all types of material for civil construction.

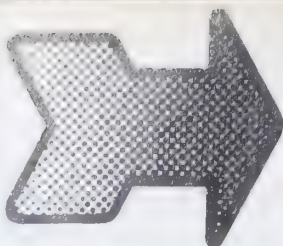


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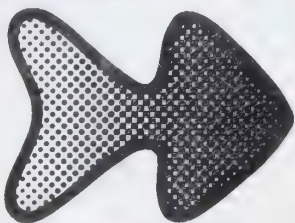
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EXPORTS POLICY

Brazil's exports policy seeks as its objectives the diversification of export items; diversification of export markets; and the implementation of large projects, both industrial and agricultural, with a view to export.

Even with the agricultural exports down due to the depressed prices in the world market last year, soybean flakes was the leader among all products exported, producing an income of \$2,136 million and a growth index of 47.42%. In 1981, exports of raw coffee brought in \$1,517 million and tobacco exports \$356 million.

For a 5-year period starting next year, the Soviet Union has signed long-term contracts with Brazil to import 500 thousand tons of soybeans per year and 500 tons of corn per year. Thanks to Brazil's third consecutive year of grain harvests in excess of 55 million tons, the exportable surplus might be extended to other products not usually included in Brazil's agriculture export list, such as rice and beans.

Brazil has achieved great success in the East European markets in its efforts to diversify export markets. In July 1981, Delfim Netto, the Planning Minister, headed a government and business mission to Moscow. It resulted in economic cooperation involving basic and industrialized products including oil, heavy equipment and grains.

The Chinese market is also being looked at by Brazil. At the beginning of this year, Saraiva Guerreiro, the Brazilian Chancellor, made an official visit to Peking explaining the need for increased trade between the two countries. Brazil's effort in this area is underscored by the soon-to-open Banco do Brasil office in Peking and Brazil's Planning Minister's upcoming visit to the Chinese capital.

Brazilian exploratory missions have recently visited Southeast Asia in search of new trading opportunities. Finance Minister Ernane Galveas, at the beginning of the year, visited the Near East and Africa for the same purpose.

PROJECTS TO DEVELOP FURTHER EXPORTS

Brazil is making the most of its ample energy availability, mineral reserves and expansive territory through development projects such as the Great Carajas Program.

This program focuses on the export potential derived from the development of the

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Carajas mineral province located in the Amazon forest, an area where the world's greatest iron ore reserve (18 billion tons) is found, along with large reserves of copper (1 billion tons), gold, bauxite, manganese and other minerals.

The mineral-metalurgical and agro-cattle rising projects of the Great Carajas Program will require investments of \$36 billion. The program should eventually produce early exports valued at \$12 billion. Two of the most ambitious projects of the Great Carajas, iron ore and aluminum-alumina, will begin exports by 1985.

The Iron-Carajas project developed by the state Companhia Vale do Rio Doce (CVRD) is the largest exporter of iron ore in the world, boasting a 870 kilometer railroad that cuts through the Amazon forest to a port capable of receiving 300 ton ships. Total cost of this project is estimated at \$5.5 billion and is designed to reach an export capacity of 50 million tons of iron ore.



Amílcar Penna, Minister of Industry and Commerce

The World Bank considers the Iron-Carajas project as technically well-formulated and has opened a credit of \$300 million for the project, stimulating the participation of others such as the EEC, Japan and Germany. These countries will invest 1.5 billion, gaining in return pre-sale contracts for more than 20 million tons of iron ore per year.

The second project of the Carajas Program involves investments of more than \$5 billion for the production of alumina and aluminum from the great bauxite reserves in the region. In its first phase, the Albras project, an association of the CVRD with Japanese capital, will produce 160 thousand tons per year of alumina and 500 tons of

alumina. In the following phase, yearly production will go up to 320 thousand tons of aluminum and one million tons of alumina.

Alcoa is developing an aluminum production project in the region which will reach 500 thousand tons per year for export in its

final phase. These Carajas projects will greatly increase exports, create thousands of jobs, develop a region which, until recent years, was considered inaccessible.

To meet the intensive energy needs of these projects, the Brazilian government is building a four-million Kilowatt hydro-electric

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LA - 1 - North Sea
LA - 2 - Brasil South-Center
LA - 3 - Scandinavia
LA - 4 - Brasil Northeast
LA - 5 - Brasil South
LA - 6 - English-French
LP - 1 - Mediterranean

AFRICA/NIGERIA/MIDDLE EAST

LAF - 1 - West Africa
LOM - 1 - Middle East
LNIG - Nigeria (joint-service with Nigerbrás Shipping Line)

JAPAN/FAR EAST/AUSTRALIA

LO - 1 - Japan - Far East
LAUST - 1 - Australia

ALARMAR/MEXICO/COASTAL LINE

ALNE - Brasil - Central America
BRME - Brasil - Mexico
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GROWTH OF BRAZILIAN EXPORTS

(In US\$ Millions)

ITEMS	1978	1979	1980	1981
Basic products	5,978	6,552	8,471	8,910
Semi-Manufact. Products	1,421	1,887	2,349	2,075
Manufactured Products	<u>5,259</u>	<u>6,805</u>	<u>9,312</u>	<u>12,308</u>
TOTAL	12,658	15,244	20,132	23,293

plant in the Amazon Carajas region which will start operation in two years. In time, the plant will generate eight million Kilowatts, and will become the second largest in the world after the 12.6 million Kilowatt Itaipu plant jointly being built by Brazil and Paraguay.

The Brazilian Government is also developing the "Cerrado" region of central Brazil as a high agricultural producing area.

With these initiatives, Brazil faces the challenges of the world crisis in natural resources and food production. Having set up programs to increase agriculture and exports, the Government feels it has found the correct approach towards solving difficulties facing not only Brazil, but the world.

The text for the special Brazil advertising section was prepared by Milano Lopes. Mr. Lopes is a reporter specializing in economic and financial issues in Brazil.



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Ideas generating progress.

Once corporations didn't want to hear about toxic waste. Now a \$1.6 billion cleanup fund and some strict new rules are creating a booming business.

Waste makes haste



Chemical wastes at Baltimore's Hawkins Point flow directly into Chesapeake Bay. Under the "Superfund" law, waste generators and dump operators are liable for the cost of cleaning up sites like this—with the possibility of treble damages. This cleanup is creating a billion-dollar industry that may rely less on landfills and more on safer—and costlier—treatment methods like incineration.

By Carol E. Curtis
and Alyssa A. Lappen

CHURNING OUT PLASTIC, a Dow Chemical Co. plant also produces a black, gooey residue that sinks to the bottom of tanks. Dow used to bury this foul-smelling, highly flammable ooze. But now the sludge goes into a high-temperature incinerator, which produces a perfectly harmless mixture of carbon dioxide and water.

Though this can cost four times as much as burial, Dow nonetheless recycles, reuses, treats or incinerates 99% of its waste. General Motors is taking another route. Off-site waste companies handle most of GM's chemical waste. How? Unlike radioactive waste, where disposal technology is controversial, virtually all toxic waste—PCBs, benzene, dioxin, paint sludge and the like—can be rendered harmless through chemical neutralization or incineration.

Disposing of these poisons can be grandly profitable. Waste Management, Inc., for example, managed pretax profits of 30% on \$119 million in chemical waste sales last year. Browning-Ferris Industries, another industry leader, had chemical disposal sales of \$60 million last year, and pretax profit margins this year could approach 26%.

This big money is being made—and spent—because of two little-understood laws. One spells out who is liable to clean up the 50,000 abandoned toxic waste dumps in the U.S. To help pay for the cleanup, Congress created a \$1.6 billion "Superfund," financed largely by a tax on chemical feedstocks. The second law sets up a system to track the 154 billion pounds of toxic wastes America produces each year from origin to disposal. It also requires federal licensing for all dumps. Its objective: federal standards for the patchwork of state waste disposal programs now in effect.

Like many government initiatives, of course, these rules have been slow to take hold—but they are already creating a good-size new industry. The Superfund, for example, now has assets of \$300 million. Representatives of 440 companies jammed a recent Washington meeting where the Environmental Protection Agency explained how it will award cleanup contracts. Meanwhile, EPA's landfill regulations, which took six years to develop, were issued in their final form in mid-July.

Industry officials were surprised by EPA's tough position. Many requirements for new landfills vary little

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from those proposed by the Carter Administration. "We were slow getting started, but we are serious," says Rita Lavelle, head of the agency's toxic waste program.

Right now only about 20% of all toxic waste goes to outside landfills or treatment facilities. The remainder is handled by companies at their own facilities. Tougher regulations, however, will push the off-site treatment figure higher. Some predict that off-site toxic waste disposal will be a \$2 billion-a-year business by 1985.

Some specialists are already cleaning up. SCA Services, Inc., for example, got into the business in 1973. Its toxic waste revenues are now \$44 million, and the business will get a \$20 million capital budget this year.



EPA toxic waste chief Rita Lavelle
After six years, will the EPA finally deliver some strict rules?

Waste Management, meanwhile, is spending over \$50 million on new facilities—including *Vulcanus II*, its second incinerator ship. RLC Corp.'s chemical waste subsidiary, with \$37 million in sales last year, is investing \$15 million in fiscal 1982. Growth-hungry conglomerates also see opportunities. IU International recently bought two Titan missile silos to hold hazardous garbage and launched a toxic waste handling subsidiary called EnviroSAFE Services.

Smaller companies are also growing. Cecos International, which cleaned up New York's Love Canal, works, among other things, in chemical spills. IT-Corp., meanwhile, does a profitable business in developing chemical control and disposal meth-

ods; one system neutralizes deadly dioxin with ultraviolet light.

Since the Superfund was set up, EPA has been evaluating potentially dangerous toxic waste dumps. Its tally amounts to a prospect list for waste management companies. The agency plans to spend \$52 million this year at 70 of these locations. At the other 45, states and liable parties will finance the cleanup effort. Much of the work will be contracted out to private industry.

The new law vests the cleanup responsibility with either waste generators or dump operators. This eliminates disputes over site ownership such as the one that created confusion at Love Canal in upstate New York. In addition, waste generators face the

Closed sites, which look like grassy areas above ground, have a bottom liner—often a double layer of asphalt, plastic or rubber—with a foot or two of sand or gravel in between. Nowadays, a state-of-the-art installation like Browning-Ferris' Livingston, La. site could cost \$20 million.

Not everyone, however, thinks this is adequate security. Peter Montague, a Princeton University researcher who foresees a potential boom in high-technology disposal methods, points out that the inner linings at four new "secure" landfills in New Jersey have already sprung leaks.

Though new rules will not make such landfills illegal, tougher enforcement is certain. Congress is in the process of tightening several legisla-

Like sex to a Victorian

At an unguarded moment, the head of a large corporation recently claimed that criminals may be operating as much as 50% of the toxic waste disposal business. Organized crime's presence in the industry is like sex in the Victorian era: Everyone knows it is there, but no one wants to talk about it.

Charges abound—some even involving big public companies. A Browning-Ferris subsidiary, for example, was one of 56 firms and individuals named in a 1980 New Jersey indictment for price-fixing in solid waste collection. A Mafia-dominated trade association was at the core of the alleged conspiracy. In related congressional testimony, a former Mafia associate claimed that the mob's system of "property rights" in solid waste has spilled over into toxic waste collection and implicated SCA Services. Both

companies, which have also been indicted on antitrust charges in Atlanta, deny allegations of wrongdoing or mob ties.

Many scandals, too, involve small, low-profile firms and so-called midnight dumpers. Regulators hope that new insurance and capital requirements as well as instituting licensing procedures will help clean up the industry, and they have put a clear know-your-contractor obligation in current rules. "Increased public attention makes it hard for criminal elements to survive," says Representative Albert Gore Jr. (D-Tenn.), who chaired House hearings on the subject.

Maybe. But it is also obvious that criminals are now entrenched in some aspects of the waste disposal business. They won't give up ground easily.—A.A.L.

prospect of treble damages if their lack of action forces EPA to clean up a dump on its own.

As Dow Chemical's experience shows, some solutions have a high price tag. Incinerating some poisons, for example, can cost as much as \$2,000 a ton, because of the high temperature required. In contrast, simply spreading waste onto the ground can cost as little as \$5 a ton. There is a wide range in between—including so-called secure landfills, chemical neutralization, deep-well injection and resource recovery.

Right now, over three-fourths of all hazardous waste goes into landfills. Ideally those are secure and seal off contents in a way that does not contaminate either soil or groundwater.

Waste Management, meanwhile, is spending over \$50 million on new facilities—including *Vulcanus II*, its second incinerator ship. RLC Corp.'s chemical waste subsidiary, with \$37 million in sales last year, is investing \$15 million in fiscal 1982. Growth-hungry conglomerates also see opportunities. IU International recently bought two Titan missile silos to hold hazardous garbage and launched a toxic waste handling subsidiary called EnviroSAFE Services.

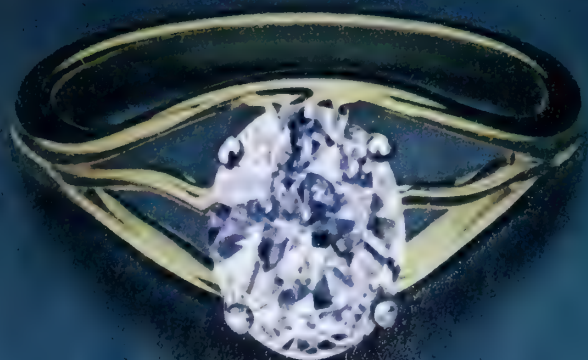
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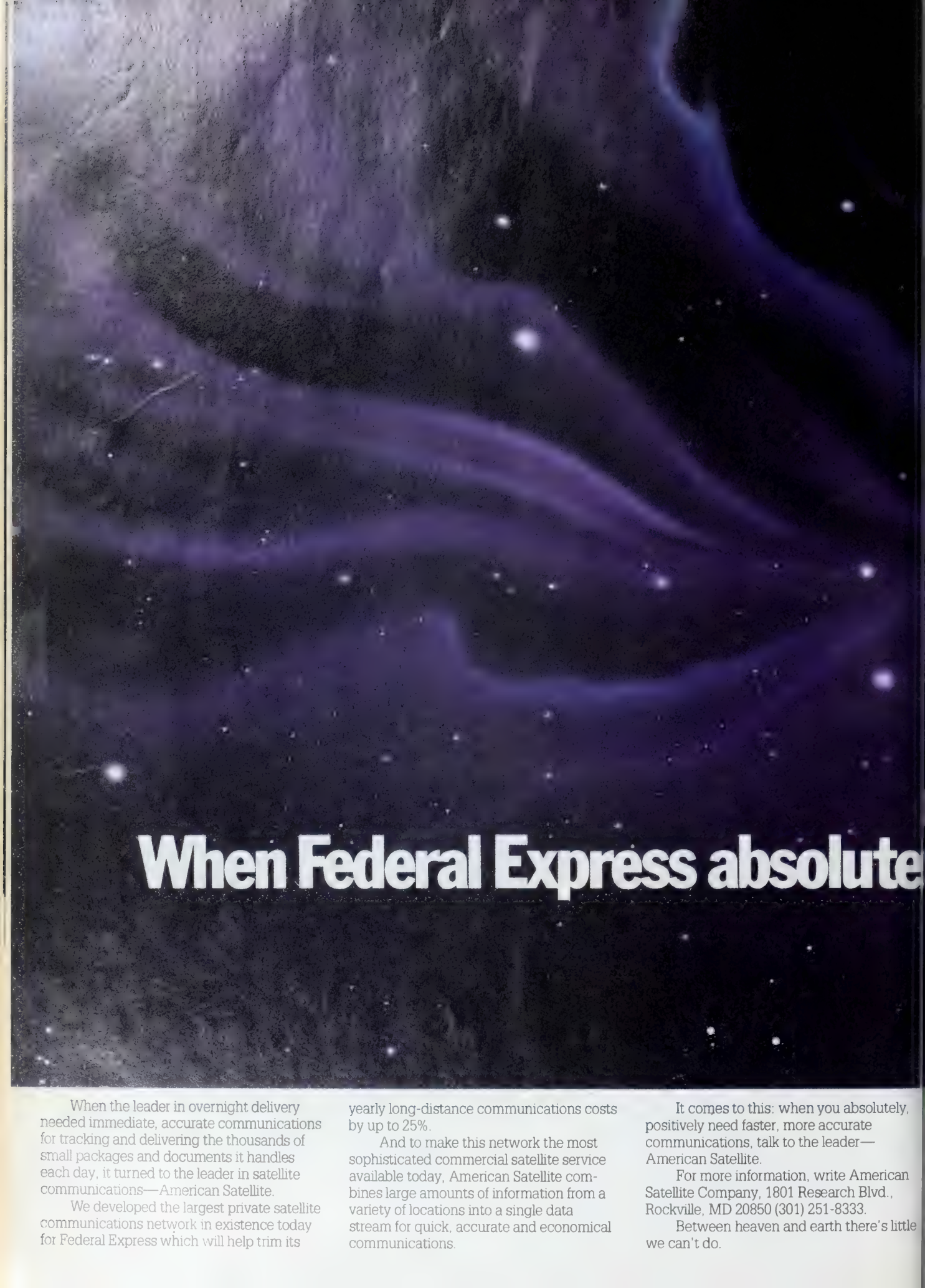
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But a diamond of a carat or more
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And, like love, becomes more
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becomes a woman's good fortune.

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A satellite is shown in the foreground, angled towards the viewer. It has a cylindrical body with a gold-colored dish antenna at the rear. The background is the dark void of space, with the curved horizon of Earth visible at the top, showing blue clouds and a thin white atmosphere. Several stars are visible in the distance.

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WHEN AMERICAN BUSINESS HITS THE ROAD,
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If you're thinking about buying a home computer, learn from the mistakes of the more than 1 million people who came before you.

Bringing home the computer



THERE'S A HARD WAY and an easy way. Mike McGrath chose the easy way when he bought his home computer. So did Steve Jobs. McGrath, president of Solvation, a Waltham, Mass. manufacturer of small business computers, simply brought one of his own company's models home and set it up in the den. Steve Jobs, one of the founders of Apple Computer, the leading maker of home computers, did the same thing. When things go wrong, McGrath says, "I just throw it in the back of my car and the engineers and software people fix it. If I was a normal person, I would have run into many roadblocks that would have frustrated me. After all, home computers aren't like television sets yet."

Since the chances are you don't own your own computer company, you will have to do things the hard way when you decide to buy a home computer. More like, say, Allen Sneider, a partner in the Boston accounting office of Lavenhol & Horwath, who bought his first home computer to develop new client services back in 1978. Sneider now says he's quite satisfied with his decision to install an Apple II. But he was not so sanguine about it in the beginning: "It was extremely frustrating, because back then you had to do a lot of your own programming. Finally, I just put the thing aside. Then, in the summer of 1979, I was allowed to test a business program called VisiCalc [see *Up & Comers*, p. 72]. It was so easy and so detailed that it changed my whole attitude toward computers and got me back."

Sneider was lucky. Suzanne Ciani, a New York-based composer who uses her computers to generate electronic sounds for commercials and music, had a somewhat hard-

**By Stephen Kindel
and Anne Field**

er time. "I bought my first computer about seven years ago. It was a disaster. It didn't work, but by the time I figured that out, I thought it was *me* that didn't work."

Gradually, Ciani began to master her equipment, but she still feels a certain hesitancy when she brings new hardware into her home. "You just have to plunge in and get acquainted," she says, "and that takes time. Then either you like it or you don't."

If it's hard for a woman like Suzanne Ciani, who studied digital theory at Stanford University's Artificial Intelligence Laboratory under Bell Labs' Max Mathews, how can the rest of us ever hope to cope with what is rapidly shaping up as the premier consumer purchase decision of the 1980s: what home computer to buy. Steve Jobs and Steve Wozniak started building their first Apple computers in a garage in 1976. Since then some 1.9 million computers priced below \$15,000 have been sold, according to Creative Strategies International, a San Jose, Calif. research firm, and that number is expected to jump to more than 4 million before the end of 1982—and at mid-year that figure is right on target. So if you have not already bought one, that first home computer is just around the corner.

That can be a daunting prospect.

While you can get a home computer like the Atari 400 for as little as \$300, most systems sell in the \$2,500 area. What you get for your money varies widely from manufacturer to manufacturer. How do you know what's really important to look for and what isn't, what's basic and what's optional? Don't count too much on dealers for the answer. They are confused, too. The choices in equipment (hardware) and programs (software) are proliferating at a

brehtaking pace, and the big established names in the computer business, such as IBM, which made the plunge into home computers late, are making up for lost time with splashy ad campaigns and fat royalty schedules to encourage programmers to write software for their equipment. While all this competition is bound to result in better and cheaper home computers, it greatly complicates the task of comparison shopping right now.

To find out how to buy a home computer intelligently, *FORBES* decided to ask the people who have learned the hard way, by buying and owning a home computer. Their mistakes shouldn't be yours.

The place to start, virtually everyone agrees, is with the language question. You cannot expect to get anything useful out of a computer unless you know how to talk to it and can get it to talk back. This is tougher than it sounds. Says Susan Stevens, a secondary school history teacher in Buffalo who bought an Apple II Plus last Christmas: "The computer is very particular when it comes to grammar and syntax and punctuation. Everything has to go just right."

Suzanne Ciani agrees about the language problem. "You have to be very specific and very descriptive, so that seemingly easy things can be very difficult." In mitigation, says Dr. Allen Puckett, chairman of Hughes Aircraft Co.: "Sure, it has its own logic, just as any language does. But it's easier than learning a foreign language because the vocabulary you have to absorb is very limited."

What it all comes down to is this: If you were able to learn a foreign language in high school or college, you can probably, with time, master the essentials of computer programming. If, on the other hand, you were a washout in high school Spanish, you should aim for what the computer professionals call "transparency," which means a system that requires no prior knowledge of computers and programming.

Language has become a critical topic in the marketing of home computer systems. IBM repeatedly emphasizes in its instructions to would-be software suppliers that ease of linguistic use is the primary goal of any software that IBM markets. Says an IBM spokesperson, "We do everything we can to encourage the people who write software to make it accessible for as wide an audience as possible."

Once you have penetrated the language barrier, the next question to ask is: What do you want to use your computer

for? You might want to bring your work home, like George Hagen, who owns two printing and graphic arts companies and is a major stockholder of a third company, Vertical Data in Toronto. He owns four home computers, an Apple II and an IBM model that he uses to do financial analysis when he is home in Toronto, and another Apple II and an Archive when he heads for the Sarasota, Fla. sun. "The Archive is better at word processing than the Apple," he says, "and it allows me to have a second office at home without the need for a typist." Who needs a typist when the machine will prepare a perfect letter?

Or you might want to pursue your hobbies, or an affair of the heart, as does Claude Comeau, vice president of Wayland, Mass.-based Comeau Corp. Comeau bought his Apple II for its color graphics capabilities and will make animated pictures, which he plans to shoot in 16mm film. Sometimes he uses it to send his girl friend love notes: "Last Valentine's Day I had just added the Apple to the TRS-80 I own, and since I didn't have time to send her flowers, I wrote her a Valentine on the computer. When she turned it on, hearts came onto the screen."

Valentines, office letters, games, tracking a stock portfolio. The potential uses are as varied as human activities. Once you have decided what you will use the computer for, do you pick your brand? Not yet. The logical next question is: Which program will do the best job? This is a necessary question that should be answered before you start choosing among machines. Why so? Because some programs run better on one machine than on another.

There are now thousands of programs on the market. Basically you can choose from eight categories.

- **Office work:** Included here are all of the accounting and financial management programs, of which VisiCalc is probably the best known and most comprehensive. Also in this area are what might be called professional management programs: systems such as direct mail list management, useful if you own a newsletter or small sales business, or programs that will consolidate all of your office forms into a single package, which is ideal for doctors and dentists.

- **Word processing:** These pro-



grams are designed to check your spelling, hyphenate words, allow you to move paragraphs and words around and do all of the drudge work now performed on the typewriter, without the endless retyping and correcting you have to go through on a conventional typewriter. Jerry Pournelle, a bestselling science fiction writer, figures word processing doubled his income within six weeks, through improved productivity.



• **Performing research:** Computers can talk to each other easily enough by means of "interfaces." An interface is simply a device that translates what one machine has to say into a language useful to another machine, and vice versa. The most common interface is a modem, or modulator/demodulator. This device converts your computer's commands into auditory tones that can be sent over a telephone line to another computer. That enables your computer to gain access to whatever is stored in the other computer. Modems offer a wealth of information for very reasonable costs. So-called data base utilities, such as the Source, now owned by the Reader's Digest Association, or Lockheed's Dialog Information Services, provide clients with huge amounts of information, ranging from stock market data and news to magazine articles in abstract or index form for the cost of making the telephone connection and a royalty payment to the data base owner. So popular have modems become that they are approaching printers as the most sought-after option at purchase.

• **Learning new skills:** Nowadays, programmed instruction is much more useful and sophisticated than it used to be, thanks to "partial reinforcement," the so-called slot machine effect that keeps you at a task even though the rewards are sporadic. "Partial reinforcement keeps you going, and the reward is that at the end you have a skill," says Tom Landauer, one of over a hundred psychologists Bell Labs employs to work on the problems of making computers easier for people to use. Control Data Corp. of Minneapolis is probably the leader in programmed instruction, through its PLATO learning center. PLATO offers instruction on everything from literature to Boeing 727 maintenance and repair and has begun to make some of its instructional programs available for home use. As with data bases, however, there are dozens of vendors and probably thousands of courses.

• **Playing games:** There's more to life than Space Invaders and Pac-Man. Games of a higher order of complexity, such as chess and the hugely popular fantasy game Dungeons & Dragons, are at least as well played with a home computer as with a specialized machine. All that's required is a knowledge of the game—the computer will often teach you the rules—and the appropriate game program. Computer-based games are so popular that subscribers to the Source often play chess against the company's computer.

• **Inventorying personal possessions:** Computer memory is the electronic equivalent of the filing cabinet; each diskette can hold several hundred to several thousand pages of information. That fact often encourages people to get around to putting things on the computer that they might not bother to inventory on paper: stamp collections, whose catalog value changes yearly; purchases of art and jewelry; personal possessions for insurance purposes; even favorite recipes. There's no limit to the kind of things you can store in a computer, and there are often programs already on the market that are designed to help you achieve a well-ordered life.

• **Personal finance:** To help you manage your wealth better there are programs such as Depreciation, a program from Money Disk of Richland, Wash. that will automatically depreciate up to 800 of your most precious capital assets according to IRS schedules. Or you can buy yourself a Professional Tax Preparation System from Commodore Business Machines of Wayne, Penna. and go whole hog. After all, the \$800 you spend for that

program is about what you would have to pay a professional tax planner, and, like him, the program is deductible. How good is it? Jeffrey Rothfeder, associate editor of *Personal Computing*, says, "It's one of several more-than-adequate programs available for doing your taxes."

• **Portfolio management:** A program like Personal Investor from PBL Corp. of Wayzata, Minn. will turn your Apple II or IBM into a system that updates the value of your portfolio and helps you retrieve business news and information. Cromemco's Plan Master will assist you in broadly based financial planning and numerical analysis. The Technical Analysis Group of New Orleans offers several Compu Trac programs designed to provide investors with decision-making information on the commodity, stock and options markets and will even automatically dial up a commodity data bank for the most up-to-date news.

In short, you can perform a wide variety of tasks on a home computer, as long as they are tasks a computer does well, such as sorting, filing and number crunching. Okay. You have identified these tasks. You have found the appropriate software. Now you are ready to choose a machine.

Which machine is best for your purposes? It is hardware that makes grown men weak in the knees, with its bewildering language of RAMs and ROMs, bits, bytes and bauds, protocols and Winchester drives. Listen to Mike McGrath: "If you want to add something, say a floppy disk, it's easy if you're a technician or an engineer. If you're not, it's not a simple matter of plugging A into B. You have to get compatible interfaces and one thing or another that you don't discover until after you've turned the thing on and it still doesn't work."

The solution, most users believe, is to work backward. Every program you buy should have, as close to the front of the instruction manual as possible, a list of basic hardware needs. For example, the VisiCalc program sold for IBM's personal computer lists the following items:

- IBM Personal Computer (don't try to operate this program on another machine).
- At least one diskette drive.
- At least 64K of memory (too little memory and the computer program won't function).
- An IBM monochrome display or any other monitor designed to display 40 or 80 columns.
- If you want to print the worksheet, the IBM 80 Character-Per-Second Matrix Printer.
- The VisiCalc program diskette and at least one blank diskette.

If you go through every application you think you will want, and add up the requirements, you can quickly get an idea of how much hardware you are going to need—and which machine can best do the job. If you want to do research, for example, the Source will recommend that your home computer have asynchronous communications capability and an RS-232 interface. You don't have to know what all that means; all you need to know is that you will need it. A word to the wise: When toting up your requirements, don't add all of the memory needs together.

How to buy a home computer

To help you cut through the bewildering complexity associated with home computers, here are the specifications of some of the most popular systems. Since all of these systems are subject to discounting, don't think of the list prices as final. And remember that applications—

what you want to do with the computer—are all-important. So, ask for demonstrations of the software packages you are thinking of buying. They will help you decide which machines are really easiest to use for your purposes.

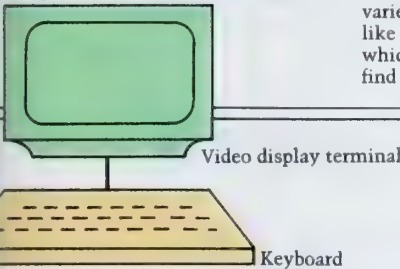


COMPUTER	Radio Shack TRS-80 Model III	Heath H-89	Commodore PET	Commodore VIC 20 Video Computer	North Star Advantage
HARDWARE					
RAM memory	4K to 48K	48K to 64K	16K to 32K	5K to 32K	20K to 64K
ROM memory	4K or 14K	48K	18K	16K	8K
Black/white display	yes	yes	yes	no	yes
Color display	no	no	no	yes	no
Graphics	64 characters and dot graphics	33 graphic characters	128 full-screen character graphics	176 x 184 dot	2- and 3-dimension
Interface	integral	integral, 3 serial ports	integral connection	integral	integral cable plug
Keyboard	basic plus keypad	special function and editing keys, numeric pad	basic	basic	same as IBM Personal Com
Storage	5¼" diskette	5¼" diskette, Winchester	5¼" diskette	5¼" diskette	5¼" diskette
Capacity/drive	131KB user, 175KB user	100KB to 11MB	170KB, 1050KB	170KB	360KB
Printers	M, I	M, I	M, I	M	M, I
Data communications	asynchronous	asynchronous	asynchronous	asynchronous	synchronous, asyn
Optional I/O	none	none	cassette recorder	cassette, joysticks, paddles	serial and parallel
SOFTWARE					
Languages	BASIC, COBOL, Pascal, AUTHOR, PILOT, FORTRAN, Quick, Quiz	MBASIC, CBASIC, COBOL, Pascal, FORTRAN	BASIC	BASIC	BASIC, MBASIC, CBASIC, COBOL, FORTRAN, CP/M
Operating systems	DOS	DOS, UCSDp, CP/M	1K	own	DOS
Documentation	20 books, manuals	about 40 manuals	about 12 manuals	5 to 10 manuals	about 10 manuals
CONSUMER INFO					
Support	dealer training	none	none	none	dealer training
Maintenance	dealer, on-site	on-site, carry-in	dealer	dealer	dealer, SORBUS se
Warranty	90 days parts and labor on hardware	assembled: 1 yr parts and labor; kits: 90 days parts	90 days parts and labor	90 days	90 days parts and l
APPLICATIONS					
Personal inventory	yes	yes	yes	yes	yes
Investment management	yes	no	yes	yes	no
Personal finance	yes	yes	yes	yes	no
Office at home	yes	yes	yes	yes	yes
Doing research	yes	yes	yes	yes	yes
Playing games	yes	yes	yes	yes	no
Learning new skills	yes	yes	yes	yes	yes
Writing/editing text	yes	yes	yes	yes	yes
BASE LIST PRICE	\$699 to 2,295	\$1,595 to \$2,499	\$995 to \$1,295	\$300	\$3,599

DOS: Disk Operating System; UCSDp: University of California, San Diego operating system; CP/M: CP/M-86 operating systems designed by Digital Research Inc.; I: Impact; M: Matrix; T: Thermal

Video display terminal—a TV set by another name. If you don't need graphics or color, a b&w portable set will do.

Keyboard—this looks like an ordinary typewriter keyboard, except that it has more keys. The



most important extra keys are for commands, which allow you to give instructions to the computer more effectively.

Printer—this is for permanent copies of what is on the screen. Printers come in three basic varieties: impact, which prints like a typewriter; dot matrix, which looks like the printing you find on cash register receipts; and

thermal, which uses special paper and burns letters into view.

Memory—almost all home computers use a floppy disk memory with two drives. One drive is for the programs, while the other is for a disk on which you will store and retrieve information.

Modems—if you want to tie into data bases, talk to other

computers or other computer users, you need a modem, which hooks up to your telephone. The best kind are asynchronous; that's because, when you receive data, it will probably come in faster than the instructions you send out.

Joysticks—if you want to play games with a computer, add a joystick, which is similar to the controls used in arcade and home video games. Customized joysticks have more contact points so that they can control the motion of your starship or tank with greater accuracy.



Apple II Plus	Apple III	IBM Personal Computer	Atari 400	Atari 800	OSBORNE 1
to 64K	128K to 256K	16K to 256K	16K	16K to 48K	60K
	4K	40K	10K	10K	4K
	yes	yes	yes	yes	yes
	yes	yes	yes	yes	no
colors	15 colors	line graphic characters	128 colors, graphics	128 colors, graphics	32 graphic characters
integral cable plug	50-pin connector	IBM monochrome, printer adapter	integral cable plug	integral cable plug	RS-232, Centronics 700 compatible
	numeric keypad	83 key, numeric pad, function keys	flat	basic	basic plus numeric pad
diskette	5¼" hard disk w/5MB	5¼" diskette	5¼" diskette, cassette	5¼" diskette, cassette	5¼" diskette
RAM	140KB	160KB, 320KB	88KB	88KB	100KB per drive
Interface	M, T, I	M	MI, MT	MI, MT	any RS-232 interface
asynchronous	asynchronous	asynchronous	asynchronous	asynchronous	asynchronous
variety	wide variety	cassette jack	tape cassette, joysticks, loudspeakers, paddles	tape recorder, joysticks, loudspeakers, paddles	none
Language (BASIC, COBOL, Pascal, others)	BASIC, Pascal, others	BASIC, COBOL, Pascal, FORTRAN	BASIC, PILOT, FORTH	Microsoft BASIC, BASIC A+, Pascal, PILOT, FORTH	CBASIC, MBASIC
Operating System (DOS, UCSDp, others)	SOS	DOS, UCSDp, C/PM-86	own	own	CP/M
about 100 manuals	about 100 manuals	2 manuals	about 3 manuals	about 3 manuals	system, language manuals
	none	dealer training	users group	users group	dealer training
Service, sales centers	on-site, sales centers	dealer	dealer	dealer, regional service center	dealer
Warranty (parts and labor)	90 days parts and labor	90 days	90 days parts and labor	90 days parts and labor	90 days limited hardware
	yes	yes	yes	yes	yes
	yes	yes	no	yes	yes
	yes	yes	yes	yes	yes
	yes	yes	no	yes	yes
	yes	yes	yes	yes	yes
	yes	yes	yes	yes	no
	yes	yes	yes	yes	no
	yes	yes	no	yes	yes
Price	\$3,495	\$1,565	\$299	\$899	\$1,795

The highest number required for any one program will be around the most you need. When you look at machines, buy the next largest memory size just to be sure.

Now you're ready for some comparison shopping: The chart on page 64 should help. But now there is the question of where to buy your hardware. Tandy Corp.'s Radio Shack chain, one of the largest marketers of home computers, sells the widest possible array of home computers, with many available manuals and programs. But as a chain initially geared to the electronics hobbyist, Radio Shack retains the image of being oriented to the semi-professional, who can probably become an adept programmer within a reasonable period of time. Unlike Radio Shack, the 289-store ComputerLand chain carries multiple brands.

A somewhat more familiar way to buy computers is at outlets like Sears or J.C. Penney. Your choices are limited to only a few well-established brands, but buying a computer this way is as painless as buying, say, a toaster oven. Or you can buy by brand direct from manufacturers like IBM. The drawing power of those brand names is not to be underestimated. Despite its late start, according to Kenneth Bosomworth, president of International Resource Development, a research group, "IBM already has 10% of installed machines and 30% of current shipments."

Most people still rely heavily on word of mouth when selecting the hardware, however. Hughes' Puckett talked to some of the computer professionals his company employs; they recommended his Apple.

Comeau Corp.'s Claude Comeau took the Tandy route, starting with a basic system that cost him about \$700. "Then," he says, "I started adding things on to it, more internal memory, two disk drives, a printer. That brought the price up, over time, another \$1,300 or so." But it also brought the usefulness of Comeau's computer way up. "When I first bought it, I just used it to play games. Then Radio Shack came out with Scripsit, a word processing program, and suddenly I was writing 100-page specifications for my construction business. Then I added VisiCalc, which was phenomenal for cost estimating. I wound up bringing the TRS-80 into the office and buying an Apple II for home, and spending another \$3,500."

That's not unusual. Hughes' Puckett likens the process to buying a car. "When you buy a computer, you have just begun. Peripherals are like buying an air conditioner or a radio; you don't need them, but you can do so much more when you install them."

All this can send the price of a home computer skyward, of course. In fact, for every dollar now spent on basic computer systems, another 50 cents is spent on add-on equipment such as printers and modems, and yet another 50 cents is spent for software and supplies such as paper for printouts and daisy wheels with special typefaces. These can easily drive the price of owning a home computer into the \$5,000 to \$7,000 range. And such expenditures don't include special-purpose computers, which McGrath sees as the wave of the future. "In some ways," he explains, "no general-purpose machine can do as well, at the right cost, what a dedicated machine can do. When you buy an Atari

video game, the basic entry price is very low, and the game cartridges are cheap enough so that even if you buy a lot of them, you haven't spent nearly as much as if you had bought a home computer and decided to play games on it." McGrath sees a booming market for such special-purpose items as teaching machines for children, such as Texas Instruments' Speak & Spell, and yet-to-be-invented items including kitchen management computers.

Interestingly, what most excited the home computer owners we talked to was the machine's potential as an educational tool for children. Mike McGrath's six-year-old son, Michael Jr., has been writing BASIC programs for a year now; his other son and two daughters use the home computer to play games and teach themselves mathematics. "I developed a program for them to pick their skill level in game fashion," he says, "and when they get a correct answer, the computer says 'Yay!' " Allen Puckett wrote some programs to help his 13-year-old son with Latin, and Susan Stevens uses her computer to work out teaching games about the Depression for her students.

The potential benefits for children are so large that they may create their own problems. "They say that the children of people who are affluent enough to buy a computer grow up to be so much more advanced that they have an unfair advantage," says Mike McGrath. His fears are already being echoed in American universities, where, increasingly, students arrive at the dorm with their own computers, and special courses will create a two-tier university for haves and have-nots. Pittsburgh's Carnegie-Mellon University, seeing the problem, plans to solve the problem the easy way: Every incoming freshman will soon be given a computer.

As the business computer transformed the way we work, so is the home computer beginning to transform the way we live. Typical is the reaction of Allen Sneider: "The computer minimizes the time I have to spend doing things I don't like to do. For that alone, the investment in time I made learning to use a home computer has had a tremendous payback, because now I'm free to do the things I want to make time for." Home computers are beginning to look like the ultimate home appliance. Sooner or later every one of us will have to take the plunge. ■



As the FASB debates putting pension liabilities on the balance sheet, executives bite their nails. They should.

Balance sheet blockbuster

By Richard Greene

THE ABILITY TO RAISE interest rate assumptions may have allowed companies to breathe easier about their unfunded pension liabilities, but there's a new proposal in the works that should strike the fear of God in their hearts.

The Financial Accounting Standards Board is thinking seriously about forcing companies to put their past service liabilities directly on the balance sheet. This isn't exactly the same as the more inclusive unfunded pension liabilities. Past service represents how much a company owes the pension plan for employees' past service completed when the plan first goes into effect, plus liabilities incurred when the plan is improved.

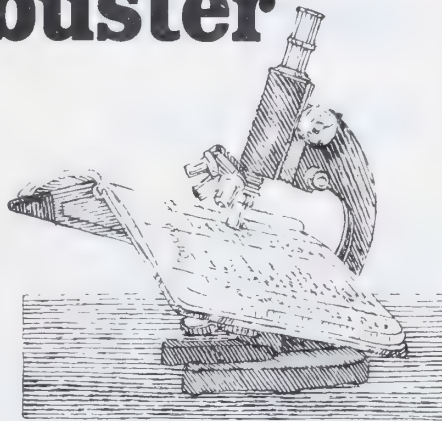
Still, it's a lot of money for many companies. It could even wipe out some firms' stockholders' equity if an asset weren't put on the balance sheet to offset it. The list of firms with large unfunded pension liabilities that might be hard hit just starts with names like Republic Steel, Pan Am, Allis-Chalmers and, of course, International Harvester.

So, for practical purposes the FASB may be forced to allow companies to put an "intangible" asset on the balance sheet as well, exactly equal to the liability. Then both would change over time as old liabilities are paid and new ones incurred.

What's this "intangible" asset? An accounting gimmick.

Says Jim Stepp, a partner with Price Waterhouse, it should represent "the better future performance of the work force due to the pension plan."

Unfortunately, that may not seem like much of an asset to analysts and bankers. "They'll look at the liability as a real liability and the asset as a



funny asset," says John J. Fox, director of accounting, auditing and SEC consulting for Coopers & Lybrand.

If the FASB finally passes this accounting change—and there will be a great deal of argument before that happens—all sorts of traditional ratios will be thrown awry.

Take debt-to-equity, used to tell if a company has any more borrowing capacity or too much debt outstanding. Firms that include sizable chunks of past service liabilities on their balance sheets will see debt-to-equity ratio go through the ceiling, since pension liability will be treated as a form of long-term debt. Stockholders' equity won't change at all.

"A good analyst should come to no different conclusions than he did before," says Fox. What's worrisome, of course, are recent studies like the one that showed many bankers and analysts fail to understand that capitalizing leases doesn't really change a company's financial status.

Does the FASB's idea make sense? There's little doubt that since the passage of ERISA in 1974, pension liabilities probably are liabilities. There's also little doubt that more disclosure is generally good for the investor. But, this one seems likely to cause more confusion than anything else.

Fortunately, with the pace of FASB changes, they have plenty of time to craft a better solution.

Give us a break

A new accounting rule requiring companies to count as a liability the vacation time employees have earned but not yet taken has been causing sleepless nights for many corporate treasurers.

The new rule—SFAS No. 43—took effect at the end of last year. And although many large public companies for years have been counting vacation time due to workers as a liability, many private companies have not. The result has been to blow a nasty hole in their latest net worth just as the recession and high interest rates have been putting unprecedented pressure on their liquidity. According to Julian Jacoby, a partner in the New York accounting firm Laventhol & Horwath, the rule has even put some companies in technical default on their loan agreements.

"For businesses with a big proportion of labor costs—hotels, for instance—the impact has been severe," he says. "Some service companies have seen as much as half of their net worth wiped out on this score. Many have had to persuade their banks to renegotiate loan agreement stipulations about net worth."

The provision seems sensible. So why has it taken so many companies so long to acknowledge the liability? According to Jacoby, private companies saw no reason to make the adjustment—whose effect is largely a one-time phenomenon with little effect on long-term earnings.

Even among public companies, there were laggards. A survey of 600 major companies tracked through the National Automated Accounting Research System by Laventhol & Horwath has shown that 66 referred to SFAS No. 43 adjustments in their latest annual reports. Some took the effect as a charge to stockholder equity—because their opening adjustments had included the new rule's effect for prior years. However, most took the effect as a charge to earnings, because recalculation for earlier years was immaterial or impractical.

One of the biggest adjustments was made by—guess who?—the American Institute of Certified Public Accountants, whose net worth was cut by \$438,000. As befits an organization of accountants, the institute decided to camouflage the damage by taking the effect through net worth, keeping its loss for the year to a manageable \$179,000.—Eamonn Fingleton

With the score 9-to-1 in favor of the taxpayer, the IRS is ready to go to bat again in its effort to tax low-interest loans.

Don't look back, someone may be gaining on you

By Jill Andresky

ACOURT OF CLAIMS trial judge last week poured gasoline on the IRS' burning desire to collect taxes on low-interest loans. His decision, still to be formally approved by the full court, okayed the agency's long-standing efforts to nail Florida businessman William Hardee for "profits" generated by an open-ended, no-interest loan from his Sea Garden Sales Co., Inc.

This was a stunning victory for the IRS, which has been defeated nine times straight over the past two decades on this question. More typical was its recent failure to tag a Las Vegas newspaper owner for the \$4 million he had borrowed from Howard Hughes at virtually no charge—in return for some good publicity.

But the IRS never gave up, arguing that when somebody gets a loan at an interest rate significantly below the going rate, that person is actually picking up additional "income." To the IRS, of course, income equals tax. For years the agency has been trying to use a so-called imputed interest trigger, which would tax the difference between an arbitrary "safe haven" rate, currently around 12%, and whatever interest was actually being paid.

But think about that for a moment, and you will begin to wonder why the IRS should go to all the trouble. Suppose Sid gets a \$20,000 interest-free loan from his employer, Max. Max should have charged, say, 20%, so the IRS claims that Sid

picked up \$4,000 a year in income.

But wait. What is the difference to Sid between actually paying that 20% interest and then getting a \$4,000 gift from Max, and paying no interest at all on that \$20,000? In the first case he simply washes the interest payment deductions against the additional gift and pays no taxes at all. Doesn't Sid get \$20,000 in either case? Doesn't



Max get that same \$20,000 back in either case?

That's just what the courts have been arguing.

After first being felled by this argument in 1961, the IRS groped around for 12 years for a new approach. Now the agency argues that no tax deduction is permissible on imputed interest, since imputed interest never actually passes hands. This sophistry amuses some taxmen. "The IRS has no trouble imputing income that a borrower hasn't actually gotten in cash," remarks Leon Nad, a national

tax partner of Price Waterhouse, "but they do have trouble allowing a deduction for something that hasn't actually been paid."

But the IRS may have a point. A lot of these low-interest loans clearly are subterfuges for paying tax-free income. There's a lot of big money involved here. It's much bigger than Max and Sid.

For one thing, these arrangements crop up frequently as perks to woo superstars to sports teams or corporations. "They're mostly limited to CEOs or the top handful of executives," reports Richard Lannamann, vice president of leading headhunters Russell Reynolds Associates. "I see them for about 50% of the chief executives I recruit."

The deals vary all over the lot, but one fairly typical example was the \$1.5 million 8% loan that First Chicago arranged for new Chairman Barry Sullivan in 1980 to finance his purchase of 100,000 shares of the company's common stock. This was at a time when average interest rates for such personal loans were running closer to 15%.

These loans are commoner in the suburbs, where smaller sums get shuffled around between parents and children to cut down on taxes. "They've taken the place of trust funds," comments tax attorney Michael Oleske, "since low-interest loans accomplish the same purpose but leave the lender tremendous flexibility. Now you can give the money to your kids for ten weeks instead of ten years."

Until now, tax advisers such as Robert Israeloff, president of the New York State Society of Certified Public Accountants, have considered these loans adequately safeguarded as long as all the formalities were being observed. Basically, that means that both parties signed a demand note, the borrower made regular loan payments and, in the case of default, the lender enforced loan provisions.

But now all that may change. "If the full court approves the Hardee recommendation, advisers will undoubtedly become quite a bit more cautious," comments Price Waterhouse's Nad. "It's likely that the IRS will see to it sooner or later, and probably sooner, that the issue goes to the Supreme Court."

This is one well worth watching. ■

The Orient Express may grab headlines, but Sea Containers' basic business is setting records. The secret: specialization.

Down to the sea in reefers

Sea Containers Group President James Sherwood

"It's sort of annoying . . . people think you're doing it for fun."



By John R. Dorfman

MOST OF WHAT YOU READ these days about Sea Containers Group concerns the Orient Express, the historic train that the company has resurrected for a twice-a-week run between London and Venice. A fling for Chairman James Sherwood, right?

Not at all. "I've always found it sort of annoying," Sherwood says, "that if you invest in leisure property, people think you're doing it for fun." Fact is, Sherwood isn't even a train buff. He recognized a profit opportunity when he saw the outcry that accompanied the 1977 cessation of the run.

Though they get attention, the train and sister enterprises in Sherwood's property and leisure division, such as luxury hotels in Venice and Vail, Colo., still constitute only about 12% of Sea Containers' sales and earnings. The company's momentum comes from its longtime business—leasing of containers, chassis, container ships and cranes.

Despite the recession, Sea Containers last year posted record earnings of

\$43 million on revenues of \$207 million. Results so far this year are well ahead of that pace. Return on stockholders' equity the past few years has been consistently above 20%.

Credit some of this success to reefers. No, Sea Containers isn't pushing marijuana. Reefers, in container terminology, are refrigerated boxes. It costs around \$20,000 to buy one, compared with about \$4,000 for a standard 40-foot dry box, the bread-and-butter of the container leasing industry. But while that dry box can be rented for only about \$3.50 a day, a reefer fetches about \$20 a day. In addition to providing higher profit margins, reefers are in demand: Sea Containers right now is renting out about 95% of its reefers, *vs.* only 82% of its standard dry boxes.

That's because food shipments hold up well in recessions, and it's cheaper to use a reefer than a refrigerated ship, warehouse and truck. Reefers are only one item in Sea Containers' rather exotic line. For example, Sea Containers also leases tanks for both hazardous and nonhazardous liquids, and ventilated containers—useful for cof-

fee, cocoa beans and other commodities—with air panels that can be adjusted according to cargo needs.

For the past decade, Sherwood has emphasized such so-called specials, while competitors, such as Flexi-Van Corp. and CTI International (since 1980 a part of Gelco Corp.), have stuck mainly with dry boxes. As a result, Sea Containers leads the pack in profitability. "These days the shipper has a chemist and he says it's a waste of time to talk unless you understand the technical issues," says Sherwood. "That means you've got to have a bunch of chemists on your payroll."

When Sherwood first started pushing specialization, shipping companies resisted. They disliked the fact that specials often make the return trip empty. Why pay to lease a container for two legs of a journey when it's used on only one? Customers, however, like having their cargoes shipped under optimum conditions, and their pressure gradually brought the shipping companies around.

Now Sea Containers' fleet includes about 10,000 reefers and 2,000 tanks, out of some 200,000 containers. The world fleet is about 3 million containers, of which roughly half are leased and half owned outright by shipping lines. That means Sea Containers owns about 7% of the total container capacity. According to value, however, the figure is 15%.

The Sea Containers Group has two major subsidiaries, SeaCo Inc., whose headquarters is in New York City, and Sea Containers Ltd., based in Bermuda. That allows controversial tax advantages (*FORBES*, Oct. 26, 1981). Stock in the pair right now trades as a unit on the New York Stock Exchange, where shares have hovered around \$20 since 1980. Sea Containers is taking all the growth in the shipping business, while SeaCo is building up property and leisure interests. Eventually, Sherwood wants to split the two entities. That, he says, should improve their market value.

Sherwood, 47, directs his empire from London, which he calls "the headquarters of the world ship-charter market." It has been quite a journey. After growing up in Lexington, Ky., hardly a hotbed of international maritime activity, Sherwood went to Yale and served as a naval officer during the Korean War. He credits contacts made through the "Admiral old-boy network" with helping him get started in shipping.

If he hadn't served in the Navy? Sherwood smiles. "I was going to go to business school." ■

NEW YARDS.



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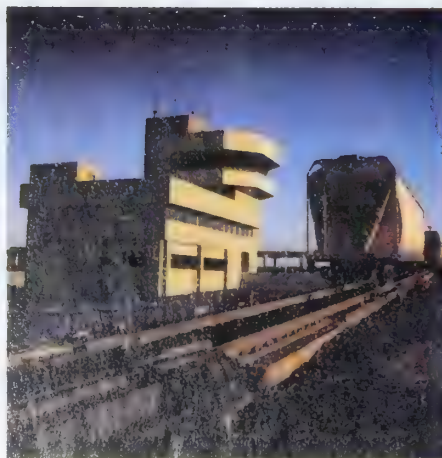


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The Up & Comers

VisiCorp climbed to the top of the personal computer software business on the basis of one good idea. Is one enough?

Calc wars



VisiCorp chairman and founder: Daniel Fylstra

"You can't make things happen unless you're in management."

By Kathleen K. Wiegner

THE NEXT TIME someone says good ideas don't just walk through the door, tell him this: Back in 1978 Daniel Fylstra, ex-software engineer turned Harvard M.B.A., was moonlighting—selling some computer games he had designed in his third-floor Cambridge apartment two blocks back of the business school. One day he got a call from classmate Daniel Bricklin, who had an idea for a new software program.

But let Fylstra tell the rest: "Bricklin and I both had this finance professor. He had advised me I'd never get rich selling personal computer software. He told Bricklin *his* idea would never fly either. If Bricklin would talk to me, he said, I would confirm that it would never fly. That's the best thing he ever did. Bricklin showed up at my door and I said, 'This is an Apple Computer.' He sat down in front of it and in a short time he had a prototype to show me. Well, I thought it was a really neat idea."

Bricklin's "neat" idea, which he conjured up while watching his professors scribble columns of mock budget variables on the blackboard, became the first off-the-shelf personal computer product businessmen could buy. VisiCalc—for visible calculator—has in three years become the infant personal computer software industry's (see cover story, p. 61) first gorilla hit—over 250,000 copies sold at about \$250 a copy. That's \$62 million (retail) for a product that a big league Harvard prof said would never fly.

The beauty of VisiCalc is that whenever a variable changes—say, the salary of everyone in the stockroom—the computer quickly recalculates all other numbers affected by the change. In this case, cost of sales and its effect on product pricing would become immediately apparent. It is the world's first electronic spreadsheet. So many imitations have sprung up that people now talk about "calc wars," "visiclones" and "calcalikes." Not without a sense of humor, Fylstra sports a license plate on his Mazda RX-7 sports car, VISICAR.

Almost alone, VisiCalc changed the personal computer from a hobbyist toy for computer buffs into a business tool. In doing so it helped propel Apple Computer into the forefront of personal computer makers (since early VisiCalc only ran on the Apple II). And it made Bricklin and Fylstra rich. Bricklin licensed VisiCalc to Fylstra's company and went off to start Software Arts, because, says Fylstra, "He wanted to run a company, too."

As for VisiCorp (1981 sales, \$20 million), it is still privately held, still regarded by friend and foe alike as the premier independent supplier of business software for personal computers. Since VisiCalc's introduction in 1979, Fylstra has bought other business programs to create a whole "visifamily" that can turn out graphs, charts, forecasts, files and schedules for managers and executives.

Fylstra began playing with computers when he was a 12-year-old living in San Diego, long before there were such things as personal computers. "My first computer was an IBM 360, a big one," says Fylstra. "The Explorer Scouts had this special interest group sponsored by IBM. Before I was out of high school I had written programs for the data center of a large bank."

After graduating from MIT in electrical engineering and computer science, Fylstra worked for an MIT-spin-off software company writing software for NASA and the shuttle program. But early on in life he had had entrepreneurial ambitions: "I found that you can't really make things happen if you stay in engineering. You can't make things happen unless you're in management." So Fylstra enrolled in business school.

Apple had just come out with the first really commercial personal computer and Fylstra immediately spotted the opportunities his less-imaginative finance professor had not. So while still studying he took \$500 of his own money and started Personal Software with a computer chess game he had written.

Surprisingly for an engineer, Fylstra recognized that marketing, not gee-whiz engineering, was the key to success. This was back in 1978 when what little software was available was sold by mail order because there weren't many personal computer stores. None of the cottage-industry types turning out games they packaged in plastic baggies with a mimeographed sheet of instructions wanted to share profits with what few dealers there were. Figuring that dealers would one day be important, Fylstra provided his dealers with eye-catching point-of-sale displays, good-looking packages and printed manuals that told even amateurs how the software should be used. He also tried hard to provide software that really *worked*. That sounds obvious but, Fylstra points out, "most firms then were long on programming development and short on things like testing, quality assurance or documentation. That became an opportunity for us."

As an entrepreneur, Fylstra also rec-

ognized he was in a business in which people were truly the most important product. So, he adopted a corporate style that would prove congenial to goal-oriented people. Says he: "Everybody at VisiCorp has profit-sharing. Everyone has stock options or is a stockholder, even the secretaries and shipping clerks in the warehouses. That's a Silicon Valley commonplace, more or less, but is uncommon in industry generally. There are no executive washrooms here, no private offices, no company cars. None of that stuff." Good-bye stodgy Boston. VisiCorp moved to San Jose, Calif.

Now that Fylstra has VisiCorp on top, he faces an increasingly hard battle to keep it there. MicroPro International, for example, which claims to be bigger than VisiCorp, has used its highly popular Wordstar word processing software (which retails for a hefty \$495 a crack) to build an entire line of "Star" products that is broader than VisiCorp's offerings. Peachtree (a division of MSA Co.) sells an accounting series that is to accounting what VisiCalc is to spreadsheet analysis. Tiny Software Publishing has a filing program that outsells VisiCorp's Visi-file. VisiCalc's inventor, Dan Bricklin, recently announced a new product that he will market through his own company rather than license to VisiCorp.

Where VisiCorp is most vulnerable right now is in its flagship product, VisiCalc, still 50% of sales. So far, the product has not been hurt by the scores of look-alikes, in part because its brand identity was so strong. But, perhaps as important, VisiCalc was closely tied to Apple computers. Rather than compete head to head with VisiCorp's grip on the Apple market, other software companies designed their "calc" products to be used on rival machines. But each new "calc-alike" has features that VisiCalc lacks, and at least one, Sorcim's SuperCalc, has turned out to be a major success.

And, as would be expected, the "calc wars" are turning into price wars. Software pricing has pretty much been a matter of "what the market will bear"—margins run as high as 50%. But as the market heats up, lowering the price is becoming a way for companies either to enter the market or differentiate themselves from the pack. Just last May a little software outfit called Comshare announced a \$50 electronic spreadsheet that it claims can do 90% of the functions of a \$250 VisiCalc package. So far Comshare has been shipping around 1,000 copies a week.

Fylstra, a mild-mannered Clark Kent sort who talks like a computer buff one minute and a Harvard case-book study the next, responds by talking about VisiCorp's strengths in terms of "integrated product families" and "human interface." However, VisiCorp has a reputation for being aloof and arrogant in dealing with some of its distributors. It's a classic problem for a little company that grows. When VisiCorp was young and struggling it needed independent regional distributors to move product. But now that it's flourishing, the next obvious step is to get rid of a lot of those middlemen. "They are building a lot of bad will," snaps one disgruntled distributor. "They're king of the mountain right now, but if they slip, a lot of people are ready to jump all over them." VisiCorp is also criticized for ignoring new channels of distribution—*i.e.*, stores that sell only software.

To his credit, Fylstra is not sitting still. He recently introduced a new version of VisiCalc to meet the challenge from products like SuperCalc. And another VisiCalc program ties in with McGraw-Hill's DRI data base so that users can use the information—like economic forecasts and statistics contained in that data base—in their own economic models. He is also turning to in-house development to try to pull together a family of products rather than relying on outside programmers. That will give him more control over his product but increases risk and costs since new software development is like research and development. A successful program can cost several million dollars and consume at least a year of programmer time. All that is lost if the work has to be scrapped. When you buy from the outside you don't pay for something that doesn't work.

Up to now, money has not been a problem for Fylstra. VisiCalc's development was funded from the profits and cash flow from Fylstra's game business. When VisiCalc hit, the money just rolled in. "It wasn't until the spring of 1980 that we raised any money at all," says Fylstra, "and that was really because we wanted the venture capital people involved in management. A year later, when we raised another \$2.1 million, we still had that \$500,000." And this spring another round of venture financing raked in \$6.2 million. Whether he will put this money at risk, as in the past, is an open question. Says a competitor: "They seem to want to be Silicon Valley's first conservative company." Success has its perils no less than failure. ■

The Up & Comers

Control Data is so hungry for young customers it's willing to give years of underpriced advice to lure them.

Get 'em while they're young

By Laura Rohmann

MICHAEL BUNDGAARD HAD been running his \$200,000 (sales) hot-air balloon school in Denver for six years when he decided his management skills needed some brushing up. Bundgaard has degrees in physics and architecture. Responding to a local newspaper ad, he enrolled in the "Building Your Own Business" course at Control Data's Denver Business Center. Funded by the Small Business Administration, the free course covers topics from

market research to record-keeping systems and collection techniques. "In a small business, you're so involved with the day-to-day details that sometimes you forget the big picture," says Bundgaard, 38. "This sort of put me back on track."

Control Data, the \$4.1 billion (sales) computer and financial services company, figures many small businessmen need financial help and business advice and, if they get it, can be sold a wide array of services in the process. In three years CD has established some 60 small business centers

and attracted 7,000 entrepreneur student clients. That cost CD \$7.2 million net in 1981 alone, and 1982 isn't stacking up any better. But CD says the long-term benefits of getting young companies used to relying on CD services far outweigh the red ink. "It's a cradle-to-grave type of continuum we're hoping to achieve," says Robert Kleinert, senior vice president for small business services.

Through the Business Centers, which are run by its Commercial Credit subsidiary, CD offers entrepreneurs one-stop shopping for financing, computer training, equipment leasing and insurance. CD also offers 100 management courses, from "Better Business Letters," the least expensive course, at \$115, to "Selling: The Psychological Approach," the most popular course, cost: \$235.

The Business & Technology Centers offer additional services. BTCs provide office space and support services for companies just emerging from their owners' basements or garages. Fledgling companies can have their phones answered for \$25 to \$27 a month, word processing done for 6 cents to 14 cents a line, and can rent office furniture (complete with desk, table, chairs and a file cabinet) for \$135 a month. Other options range from janitorial services and access to vending machines to business plan consultations and computer time-sharing.

CD uses the Business Centers to trade customers up from one service to the next. Jim Serio, co-owner of Andy's Refuse Service (company slogan: We Talk Trash), first went to CD for financing—most bankers won't touch trash companies—that took his \$700,000 (sales) company to \$1 million. Then Serio discovered that CD repaired the Motorola radios in his trucks faster than Motorola did. Next he started using CD's collection agency, and finally went to CD for insurance—traditionally a problem in the trash industry, where, says Serio, "You have trucks that weigh 20 tons empty bumping into cars that are made of tinfoil."

Will the small companies continue to use CD services if and when they grow up to have over \$500 million in sales? Bundgaard says CD would have his "top-of-mind awareness" if he ever shopped for a computer, and Serio added that he would "go an extra little bit to deal with Control Data." But both men also said they would shop around.

Waiting for the payoff could be costly, however. After three years CD is still losing money on the deal. ■



Learning how at a CD Business Center
One-stop shopping for entrepreneurs.

HOW TO PROVE TO YOUR COMPANY'S MANAGEMENT THAT OWNING AN AIRPLANE HAS BECOME AN ECONOMIC NECESSITY.

reasons for wanting a company airplane are easy enough to articulate:

- SAVES ENORMOUS AMOUNTS OF TIME.
- FREES YOU FROM RIGID FLIGHT SCHEDULES AND ROUTINGS.
- MAKES YOUR TOP PEOPLE MORE PRODUCTIVE.
- OFFERS YOU GREATER PRIVACY AND SECURITY ENROUTE.
- LETS YOU FLY DIRECT TO ANY AIRPORT THE AIRLINES SERVE, PLUS OVER 2,000 MORE THEY DON'T.
- ELIMINATES A LOT OF MOTEL AND TRAVEL EXPENSES, LETTING YOU SPEND FEWER NIGHTS AWAY FROM HOME.
- LETS YOU TAKE ALONG THE EXTRA PEOPLE YOU NEED AT NO EXTRA CHARGE.
- ELIMINATES ALL THAT STANDING IN LINE AT TICKET COUNTERS, SECURITY CHECKS, BOARDING GATES, AND BAGGAGE CLAIM AREAS.
- CONVEYS THE IMPRESSION THAT YOUR COMPANY IS GOING PLACES.

MEASURING THE IMPACT.

Clearly, the advantages offered by a company airplane are attractive enough on

their own merits.

But, translating those advantages into

hard facts and figures you can justify to a finance committee or board of directors

is sometimes the real issue in many cases.

One way to approach this is to put a dollar

value on your management's time.

If you then weigh the projected savings

against the projected costs.

To arrive at this time/value figure, start by

adding the annual salary for each of your company's frequent travelers by 2,000—which

represents the number of hours an executive works if he puts in 50 40-hour weeks a

year. Next, multiply this hourly compensation rate by an agreed-upon "productivity

factor" (a commonly used figure is 2.5, which assumes that an executive generates

revenues for the company equal to two and a half times his salary).

Thus, if you and another executive are paid a total of \$100,000 a year, your com-

bined hourly worth, according to this formula, is \$125 ($\$100,000 \div 2,000 \text{ hours} =$

$\$50/\text{hr.} \times 2.5 = \$125$).

At that rate, a four hour layover between

flights begins to look very unprofitable.

And once you've estimated the projected

time savings a company airplane

can help you achieve (5 hours a week is

typical), you can arrive at a pretty good numerical factor for comparing the real costs of business travel to your management.

NEED HELP WITH THE NUMBERS?

Of course, if all this sounds a bit more complicated than you care to get into right now, there's only one number you really need to remember: 316-681-8219. It's Del

Chitwood's phone number. And if you'll call him collect, he'll put you in touch with

your area Beechcraft representative—who'll be glad to work out all the math for

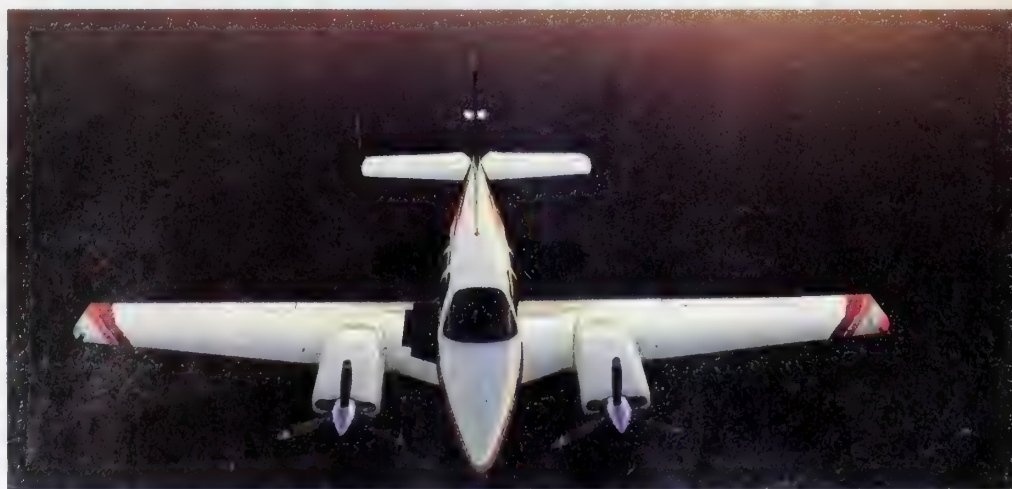
you and provide your company with a detailed cost analysis of how a business

airplane can pay off for your company. If you'd rather write, just address your letter-

head to: Beech Aircraft Corporation, Dept. K8, Wichita, Kansas 67201. We'll send

you our free portfolio of Business Airplane Reports with all the factual ammunition

you need to start building your case for a company airplane.



The good news is that the dollar fetches 40% more than two years ago. The bad news is that it still won't go far in "The Smoke." But, while it's never a bargain, London's never to be missed.

Blighty bound?

By Lawrence Minard

SINCE THE ROMANS built it (circa A.D. 61), "Londinium" has seen its share of troubles. The pagans burned it, the Celts occupied it, the Elizabethans bloodied it, the Germans bombed it, and the Americans "discovered" it. Yet London prevails as the civilized center of the English-speaking world. Ask any Englishman.

The city is, of course, the premier destination for Europe-bound Yanks, who are flocking there this year as never before—thanks to a wonderful exchange rate. Ten dollars now fetches 5.7 pounds, nearly 40% more than it did just two years ago. In the first four months of this year, almost a half million Americans visited Old Blighty, 12% more than last year. And the season has yet to peak.

Not that London is now—or ever really was—cheap. It's just less dear, thanks to that strong dollar. A double room at the Ritz still goes for \$147 a night. And dinner for two with drinks at Mirabelle will set you back \$120.

For all of its history, culture, wares, charms, mystery and bustle, London puts some unusual demands on even English-speaking visitors. Take hotels. There are something like 1,400 in greater London, but you can dismiss the majority of them out of hand as second-rate or worse. Sophisticated American businessmen who often visit "The Smoke" (as coal-fired London has been dubbed for centuries) cite only a tiny handful of places worth their pricey rates. (A full listing of recommended hotels, including rates and addresses, begins on page 82.)

At the apex are the small, clublike *Connaught*, near the American Embassy in Grosvenor Square, and Mayfair's



The Golden Lion pub on King Street

Duck in for a pint between 11 and 3, or 5:30 and 11.

Personal Affairs

Edited by William G. Flanagan

Art Deco *Claridge's*, perennial favorite of such world travelers as Occidental Petroleum's Armand Hammer.

Hugh Parker, a director and former partner in charge of McKinsey & Co.'s European operations and a London resident since 1957, recommends a number of other, not-quite-so-well-known hotels to his friends and business associates. These include: *The Athenaeum* near Piccadilly ("small, professionally run, extensively modernized 12 years ago and very convenient"); *The Inn on the Park* near Hyde Park corner ("excellent; many of my friends are repeat guests"); *Brown's* in Dover Street ("a bit down market, but very Old English-y"). The flashy *Inter-Continental*, reports Parker, "is new, expensive, and some people say not worth the money."

If you want to feel at home, advises American Robert Beckman, an investment adviser and mutual fund manager who has lived in London for 17 years, try the *Westbury*, especially if you like a good American breakfast.

One hotel name U.S. businessmen mention repeatedly is the *Berkeley* near Harrods in Knightsbridge. Like *Claridge's* and the *Connaught*, the *Berkeley* is owned by the Savoy Group (which also owns the Savoy). But, built in 1972, it is new enough so that the pipes don't leak, yet it has maintained a level of personalized service rarely associated with modern hotels.

Across the street from the *Berkeley* is Trusthouse Forte Group's imposing red brick Victorian hotel, the *Hyde Park*, a favorite of New York money manager Bruce Balding, president of Hamilton Gregg & Co. (and an arch Anglophile). Balding recommends the *Hyde Park* for its access to Knightsbridge's tony shops.

One place that doesn't get much mention these days is the proud old *Savoy*, opened in 1889 by Richard D'Oyly Carte, the impresario who brought William Gilbert and Arthur Sullivan together. D'Oyly Carte built his hotel on the Strand, near Covent Garden, in what was then the center of smart London. But smart London has since moved westward.

Still, consider the Savoy, especially if you prefer London's excellent theater to Mayfair's flashy shops. The

Savoy is conveniently located midway between business in The City and the western sights, and is an easy walk from nearly all London's major theaters—no mean attraction in a city where cabs are difficult to find and public transportation closes at 11:30 (when the drivers aren't on strike).

If you aren't on limitless expenses, try the *Wilbraham* near Sloane Square in Chelsea. Small and clubby, the *Wilbraham's* charges are very reasonable.

London has long had a reputation for pedestrian food, but the rap is certainly not deserved today. London boasts hundreds of restaurants, many of them excellent, offering cuisines that rival New York's and Paris'.

In both price and quality, the top place in town is probably *Le Gavroche*. Recently moved from Chelsea to Mayfair's Upper Brook Street, between Park Lane and the U.S. Embassy, *Le Gavroche* is the flagship of brothers Michel and Albert Roux' quality restaurant fleet (others are *Gauvers* in Chelsea, *Le Gamin* and *Le Poulbot* in The City, and the *Waterside Inn* outside London). Recently awarded a third star by Michelin (making it Britain's first and only three-star restaurant), *Le Gavroche* serves haute cuisine at Paris prices. Plan on spending at least \$150 for dinner for two. *Le Gavroche* does have, however, an exceptional luncheon menu priced at \$30, wine excluded. Lunch bookings are easy. But for dinner, book at least three days in advance.

One restaurant often overlooked is *Mirabelle*, between Park Lane and Piccadilly. Once a name in every London gourmet's personal notebook, *Mirabelle*, says Egon Ronay, whose *Lucas*



Stafford Hotel, on St. James's Place
One of few worth the rate.

Guide is the best all-purpose guide to Britain's hotels and restaurants, "has become neglected by the public, but is still a very, very powerful restaurant."

Let us mention a new (and personal favorite) top-class restaurant not in most guidebooks but already developing a strong, sophisticated following. *Chez Nico* is hidden away, a short drive over the Chelsea Bridge in a depressing section of Battersea. There is nothing depressing about the food served by proprietors Dinah-Jane and Nico Ladenis. After a champagne framboise cocktail, try the spring lamb or, in season, the game dishes.

London has finally caught on to renovation. One spectacular result is Covent Garden, the old food market where Henry Higgins discovered Eliza



The Dorchester Hotel, on Park Lane
Most top-rated hotels are relatively small and always full.



Mercedes-Benz resale performance has made history. And history does have a way of repeating itself.

Almost every automobile maker can give you a story on resale value. Read why Mercedes-Benz can give you a legend.

The older a car gets, the less value it retains—a simple law of economics.

But not all cars are equal under the law.

Some plummet in value after only two or three years.

Some experience a more gradual slide.

Others, a tiny few, so stubbornly yield their value that they are still worth a large portion of their original price several years down the road. And an even more select few have

been shown to actually appreciate in value over time.

Obviously, the shrewdest purchase is the car that shows promise of defying the law of economics as long and as strongly as possible. And knowing this, automobile makers today are hastening to reassure you about the historic resale performance of their cars.

One tactic is to cite the resale performance of the maker's most popular models from their best years—selecting, in a statistical process as delicate as picking a dozen perfect eggs, only the exceptional resale

stories. And discarding the rest.

Mercedes-Benz could exploit this tactic to tell an astonishing story of resale performance. The 1955 300 SL "Gullwing" Coupe, for example—worth



1982 300 SD Turbodiesel Sedan. Will resale history repeat itself?

\$6,820 new and today worth up to \$106,000. The 1967 250 SL Roadster, priced when new at \$6,485 and today at \$16,000. Or the 280 SE 3.5 Convertible of 1971, which in ten years climbed from an original value of \$14,000 to around \$50,000—if one can be found for sale.

But the Mercedes-Benz resale achievement goes beyond a few such hand-picked rarities. It is more than this particular model or that specific series that has been shown to age so slowly, to almost defy the law of economics. Consider that Mercedes-Benz offers the

American buyer a dazzling spectrum of automobiles to choose from—gasoline and diesel and turbodiesel models, sedan and coupe and station wagon and roadster body

types; eight models all told. And consider that, as a whole, this current range of Mercedes-Benz models has been shown to retain at least 80 percent of original value after the first three years.

Remarkably uniform resale performance: that is the recent history of Mercedes-Benz automobiles. If you are contemplating the purchase of a new car, it is worthwhile to bear this history in mind.

Because history, after all, does have a way of repeating itself.

© 1982 Mercedes-Benz N.A., Inc., Montvale, N.J.



Engineered like no other car in the world

Personal Affairs

Doolittle, and now a lovely warren of expensive shops and street entertainment. If theater's your thing, plan an after-theater meal at one of the many good-to-excellent restaurants that have recently sprung up to absorb Covent Garden's rubbernecks. Most serve a broadly defined French menu at prices that average around \$80 for two—less if you order house wines. Try *Inigo Jones*, plushly modern and named after the 17th-century Palladian architect. Or try the *Thomas de Quincey*, where many London advertising and publishing types hang out.

Much of London's business life takes place in The City, the square-mile financial center that German V-2s savaged toward the end of World War II. The City, like Wall Street, is a restaurant wasteland, with restaurants open only for lunch. (The new Barbican arts-and-residential center hopes to change that, but don't hold your breath.)

But The City restaurant scene is not hopeless. *Leek's*, near St. Paul's Cathedral, is a relaxed, New York-style restaurant that serves dependable, if not spectacular, fare. Also near St. Paul's is the Roux brothers' fine *Le Poulbot*. *Bill Bentley's* on Bishopsgate and *Sweetings*, also near St. Paul's, are both excellent seafood restaurants. Or try the *Paris Grill* near Finsbury Square, whose barmen make scorching Bloody Marys.

One of the few really irritating things about England is its so-called licensing hours. A holdover from the First World War, when the Brits worried that drinking workers would slow munitions production, licensing hours decree that liquor can be served only from 11 to 3, when the taps shut down, and then again from 5:30 until 11:00. Sunday hours are noon to 2 and 7 to 10. (Hotel guests are exempted.) Absurd? Yes. But don't expect change.

The result is that a significant amount of London social life revolves around at-home entertaining and private clubs, which are exempted from licensing hours. The best is *Annabel's* on Berkeley Square. It features an excellent bar and restaurant, and the discotheque swings until 3 a.m. But you'll need a member to get you in.

Other recommended clubs: *Morton's*

(also in Berkeley Square), *Tramp's* (at 40 Jermyn St.), *Tokyo Joe's* (in Piccadilly), and *Legend's* (near Regent Street). The latter, which features decent food and a disco, allows you to join at the door for around \$5 each time.

Naturally, the licensing hours have spawned a number of pricey places. *Stringfellows* (near Leicester Square) charges guests about \$12 for membership and coat checking and \$6 for a good drink. At *Miranda's*, sexy hostesses push for \$50 bottles of champagne.

If gambling is your thing, London still has several casinos, though over the past two years the Metropolitan Police has closed down many. The *Ritz Hotel* has a well-run casino on its premises (but under separate management). Trident Television, which

bought Playboy's revoked licenses and clubs, has recently reopened the *Cleremont Club*, above *Annabel's* in Berkeley Square. But remember that it is strictly a members-only club, costing about \$450 a year. And bear in mind, too, that London law requires a 48-hour waiting period between joining any casino and actually placing your first bet.

If at all possible, get out of London into the tranquil countryside for a night or, better yet, a weekend. Londoners certainly do, as deserted weekend streets attest. Cars are easy to rent and not overly expensive (around \$40 a day), valid U.S. licenses accepted. Driving on the left-hand side is easier than it seems. You can enjoy a



La Tante Claire on Royal Hospital Road
Parisians would be impressed.



Chefs at work at *Le Gavroche*
Even Michelin gave it three stars.



Old cellar of *St. James's Palace*, now the wine cellar of the *Stafford Hotel*
Ideal for private banquets—Prince Charles threw one there recently.

"You made money
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Who's your broker?"



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Personal Affairs

fabulous Thames-side meal at the *Waterside Inn*, near Windsor, a 40-minute drive west from London.

If you have a weekend, what's better than Shakespeare at the Royal Shakespeare Theatre in Stratford-upon-Avon, the Bard's hometown? Our suggestion: Stay and eat at the 15th-century *Lygon Arms* hotel in the picturesque market town of Broadway, a 20-minute drive from Stratford. (Be sure to ask for a room in the old section).

If you must stay in London (and there are worse things in life), then by all means go to the theater. It is no longer the bargain it once was; good tickets often cost \$20 each. If you know what you want to see, it's a good idea to book ahead, as popular shows are invariably sold out. If not, scan the *Financial Times'* daily arts page. The *FT's* drama critic Michael Coveney is frank and, in our experience, sound.

Or just take a walk. London's weekly *Time Out* magazine, which offers

complete theater listings (West End and fringe), cinema, poetry readings and so on, also lists various guided walking tours in the "Other Events" section.

Americans visiting London should note this: Brits really are subtle, reserved and as inscrutable in their way as the Japanese. "They'll tell you how marvelous, how wonderful you and your business plan are," counsels fund manager Beckman. "They'll say, 'We must get together again next week.' And then you'll never hear from them." Don't be disappointed. Do use the cultural differences to your advantage. Says Beckman: "The best thing the American businessman has going for him is his naiveté and his accent. It's classless, so the Brits can't pigeonhole you. Smart businessmen can play on that."

Still, most Americans agree that it helps to have introductions. One helpful course is the London branch of the powerful American Chamber of Commerce, which will introduce U.S. businessmen to its U.K. businessmen members. Better yet, call ahead to London-based colleagues and friends, and arrive with letters of introduction in hand.

Herewith the vital statistics for several of London's top hotels and restaurants. Prices include service and VAT and assume \$1.75 to the pound. Major credit cards accepted unless noted otherwise.

HOTELS

Athenaeum (499-3464; 116 Piccadilly W1). Rooms: 112. Double: \$154.

The Berkeley (235-6000; Wilton Pl. SW1). Rooms: 152. Double: \$158-\$184. Rooftop swimming pool. MasterCard only.

Blake's (370-6701; 33 Roland Gardens SW7). Rooms: 50. Double: \$128.

Brown's (493-6020; Dover St. W1). Rooms: 134. Double: \$145.

Claridge's (629-8860; Brook St. W1). Rooms: 262. Double: \$166. Art Deco

style. MasterCard only.

Connaught (499-7070; Carlos Pl. W1). Rooms: 90, plus 20 suites. Double: \$151-\$171. Suite: \$245-\$315. MasterCard only. Outstanding **Connaught Restaurant**.

Dorchester (629-8888; Park Lane W1). Rooms: 285. Double: \$158. Top-rated **Dorchester Grill and Terrace Room** restaurants.

Grosvenor House (499-6363; Park Lane W1). Rooms: 478. Double: \$149. Swimming pool/health club. Extensive refurbishing in progress.

Hyde Park Hotel (235-2000; Knightsbridge SW1). Rooms: 180. Double: \$154.

Inn on the Park (499-0888; Hamilton Pl., Park Lane W1). Rooms: 228. Double: \$197.

Inter-Continental (409-3131; 1 Hamilton Pl. W1). Rooms: 500. Double: \$175. Recommended: **Le Soufflé** restaurant.

Park Lane (499-6321; Piccadilly W1). Rooms: 325. Double: \$116.

Ritz (493-8181; Piccadilly W1). Rooms: 139. Double: \$147. Casino.

Savoy (836-4343; Strand WC2). Rooms: 200. Double: \$158. **Thames Foyer** for drinks, tea, after-theater snacks.

Stafford Hotel (493-0111; St. James Pl. SW1). Rooms: 60. Double: \$151. Small, traditional, in quiet cul-de-sac.

Westbury Hotel (629-7755; New Bond



The Chessington Club, above Annabel's, arisen from *Playboy's* ashes.



Palace Theatre
Tickets are now up to \$20 each.



Fortnum & Mason on Piccadilly
Try a "bracer" at the fountain.

St. W1). Rooms: 254. Double: \$130.
Wilbraham (730-8296; 1 Wilbraham Pl. SW1). Rooms: 50. Double: \$61. Near Sloane Square. No cards.

RESTAURANTS

Note: Many fine London restaurants do not accept credit cards; ask in advance. Unless noted, figure \$50 to \$60 each, including wine, service.

MAYFAIR/CHELSEA/WEST

Chez Moi (603-8267; 3 Addison Ave., Kensington). Small, unpretentious, classic French at reasonable prices.

Chez Nico (720-6960; 129 Queens-town Rd., Battersea). Top food in a lowly part of town.

Gavvers (730-5983; 61 Lower Sloane St. SW1). Original site of Le Gavroche. Offers fixed price dinner at \$26 including wine.

Le Gavroche (408-0881; 43 Upper Brook St. W1). Outstanding. Expensive wines. Dinner for two: \$160.

Guinea Grill (629-5613; 30 Bruton Pl. W1). Best steaks in town.

Ken Lo's Memories of China (730-7734; 67 Ebury St. SW1). Best Chinese food.

Khan's (727-5420; 13-15 Westbourne Grove, Bayswater). Good Indian food, trendy, informal surroundings. Dinner for two: \$35.

Langan's Brasserie (493-6437; 1 Stratton St. W1). Big, and trendy. French.

Ma Cuisine (584-7585; 113 Walton St. SW3). Small, highest quality. Book in advance. Closed Sat. and Sun.

Mirabelle (499-4636; 56 Curzon St. W1). Top-notch French.

La Tante Claire (352-6045; 68 Royal Hospital Rd. SW3). Intimate, outstanding, book in advance. Set lunch at \$20 per person, excluding wine.

COVENT GARDEN/SOHO/ THE CITY:

Note: Most City restaurants open only for lunch.

Bill Bentley's (283-1664; 202 Bishopsgate EC2). Great oysters, salmon.

Boulestin (836-7061; 25 Southampton St. WC2). Perfect for pre-ballet or pre-

opera dining.

Bubb's (236-2435; 329 Central Markets EC1). Very popular, no-frills French bistro.

City Circle (600-8479; 10 Baminghall St. EC2). Fetchingly clad waitresses.

Inigo Jones (836-6456; 14 Garrick St. WC2). Pre- and post-theater dining.

Joe Allen's (836-0651; 13 Exeter St. WC2). Best hamburgers, martinis.

Leek's (606-2339; 2-4 Russia Row EC2). Spacious, friendly, modern.

Paris Grill (638-1836; 85 London Wall EC2). Lively stockbroker hangout.

Le Pouibot (236-4379; 45 Cheapside EC2). The best French cuisine in The City. Expensive, but offers fixed-price lunch at \$25, excluding wine.

Rules (836-5314; 35 Maiden Lane WC2). Near the Savoy, the place to go for toad-in-the-hole and other traditional English fare.

Sweeting's (248-3062; 39 Queen Victoria St. EC4). Traditional seafood place. Be prepared to share a table.

Thomas de Quincey's (240-3972; 36 Tavistock St. WC2). Small, but with a creative menu.

Wheeler's (437-2706; 19 Old Compton St. W1). Traditional seafood restaurant in the heart of seamy Soho.

SHOPPING

England is no longer the workshop of the world, but London is still a nation of eclectic shopkeepers. Here you'll

find many items next to impossible to obtain elsewhere. Knightsbridge's **Scotch House**, for example, offers a dazzling array of tartans and plaids. **Stanley Gibbons**, with outlets throughout London, is best known for stamps but also offers fascinating war medals from the Empire days, and a wondrous selection of "busted bond" certificates from the days when The City financed capital projects from China to Argentina. Don't miss Piccadilly's **Burlington Arcade**, which stretches from Burlington Gardens to Jermyn Street. Here you'll find dozens of odd little shops selling everything from handmade British woolens to Victorian shirtstuds and cufflinks. When you emerge onto Jermyn Street, check out the very British smoking jackets and silk robes at top shirt-makers **Turnbull & Asser**, where you can also have shirts custom made.

MISCELLANEOUS:

LONDON THEATER:

If possible, book your London theater tickets in advance. Most U.S. travel agents can do it for you. Or you can contact London's big ticket agency **Albemarle** (283-5314; 13 Liverpool St. EC2). You pay Albemarle a 20% commission, but for hard-to-book shows like *Cats* and *Pirates of Penzance*, it's worth it.

AIR TICKETS:

London is the gateway to Europe and beyond, and there are many air bargains available. But beware of bucket-shop shysters. A top-notch London travel agent for the best legitimate deals is Martin de Laszlo at **Gilt Edged Travel** (839-5033; 40 Pall Mall, SW1).

CAR RENTAL:

All major agencies have London branches. But you can save money by going through **Kenning Car & Van Hire**, with offices near Heathrow (759-9701) and in Kensington (727-0121). Day rental: \$32. Weekly rental: \$184. Unlimited mileage.



Burlington Arcade, Piccadilly
Just the place for gold plate.



Toiletries shop, Piccadilly
In the time-honored fashion.



Hardy's Fishing Shop, Pall Mall
Walton's legacy lives on.

Faces Behind The Figures

Edited by Barbara Ettorre

Drive, he said

Back in 1970, when it seemed almost alone as a cheap import alternative, Volkswagen sold 569,696 cars in the U.S., most of them Beetles, and that gave it enough to claim a 5% share of the American car market. These days Volkswagen of America's share is 2.9%—and that includes a healthy lift from its luxury-priced Porsche-Audi division, whose unit sales were up 20% last year.

Sales of VW Rabbits, especially the fuel-efficient diesels, have been hard hit. Last year (first six months) only 84,351 Rabbits were sold. Through the same period in 1982, Rabbit sales were 45% below even that slow pace. Not too encouraging for a company that made only \$600,000 profit last year on sales of \$3 billion.

No surprise, then, that in May German parent Volkswagenwerk A.G. named a new boss for the VW division of Volkswagen of America. He's James Fuller, 43, who broke into the business in sales and marketing at Ford Motor and joined VW of A in 1979. At the Porsche-Audi division, Fuller got results with strict central controls and aggressive marketing plans. If he can get the VW division

cracking again, he thinks VW of A as a whole can gain 5% of the U.S. car market by 1985. Given the enormous effort it takes to gain even 1% from the competition, Fuller knows he has bumps ahead.

There is some irony in the fact that part of the Rabbit's problems in the U.S. arose when the company started making some of its cars here—Americans shying away from American workmanship. Add sticker shock (a stripped Rabbit currently lists for \$5,990) and the end of long lines at gas stations, and you have some idea of Fuller's marketing problems.

There is not much he can do about sticker shock or fuel consciousness, but Fuller's next best bet is to tackle the image problem. "We're going to go back and stress our heritage," he says. "We're a German company building and importing cars in America." That note will be hit through the full VW line—not only the Rabbit, but Scirocco, Quantum and Jetta. One new TV commercial for the Scirocco will show a German test driver emerging from the car to exclaim "*Ausgezeichnet!*" It means "outstanding." If Fuller can pick up another 2% market share in the next three years, that would be *ausgezeichnet* indeed.—Anne Field

Murphy's the name— "P'tchiing"

It's everyone's dream to walk away from the table with a spring in his step and chips in his hand. Daniel Murphy, a partner and head of trading at the New York-based Oppenheimer & Co., is aiming to do just



Oppenheimer & Co.'s Daniel Murphy
Giving retirement all he has.

that by retiring at the ripe age of 48.

Murphy was among a group of young men who, during the 1960s, became Wall Street stars—that is, star traders. Combining market expertise with nonstop charm, they earned millions in commissions for their firms from the giant institutions that began pouring billions into stocks during those years. The best of them, like Murphy, became rich. But some fell victim to drugs, alcohol and just plain burnout—casualties in a grueling game in which days in bustling trading rooms were followed by late nights entertaining clients in style.

"It's a young man's game," Murphy says with a sigh, gazing from his office at the nonstop activity of the Oppenheimer trading room, "and I don't need to stay for the money." He won't confirm it, but knowing observers say he is worth millions.

Murphy surely has a knack for being in the right place at the right time. A Wall Street friend calls him, onomatopoeically, *P'tchiing*. "Wherever Murphy goes," the friend explains, "you hear a cash register ringing for him." Murphy grew up on Long Island and headed for Wall Street at 23 after being graduated from the University of North Carolina. At 30 he was a partner and head of trading at Shields Model Roland. In 1977 Shields was acquired by Bache Corp. for about \$27 million in Bache stock, notes and cash. Bache was then selling for about \$7 a share. Murphy owned over 10% of Shields at the time. *P'tchiing*. In 1981 Bache was acquired by Prudential for \$31 a share, and Murphy made millions. *P'tchiing*. Now, Oppenheimer—which Murphy joined in 1977—is being acquired by Mercantile House, a British financial conglomerate, for 3.4 times partner capital. *P'tchiing*.

Murphy says he had announced his retirement internally in January even before the British deal. A reformed



Volkswagen's James Fuller

Another 2% market share would be "*ausgezeichnet*" indeed.

workaholic, he says he has been in training for retirement for three years, taking up squash, skiing and tennis and slimming down to his present 145 pounds. He wants a residence in Aspen or Sun Valley and plans to go grouse shooting in Scotland and skiing in Switzerland and Australia. The question is, will retirement pall? Says Murphy: "I'm going to give it all I've got."—Richard L. Stern

Jingle jangles

Tuesday Productions, Inc., a tiny (1981 billings, about \$2 million) San Diego-based commercial production company specializing in advertising jingles, has won a four-year antitrust court battle that could break the defendant and profoundly shake an industry. The defendant is the American Federation of Television & Radio Artists, which must pay \$3.1 million in damages (which, under antitrust law, would automatically be trebled) and over \$1 million in Tuesday's legal fees, bringing the total to \$10.5 million. According to an AFTRA publication, AFTRA's national treasury had just over \$1 million as of April 1981.

Tuesday's battle began in 1978, when a competitor told AFTRA that the company was a nonunion shop dealing with advertising agencies that had AFTRA union contracts for their talent. AFTRA put Tuesday on its "unfair list," causing, Tuesday President Tom DiNoto claimed, specific jobs to be canceled and agencies to stop using the company. In 1979 DiNoto filed suit against the 40,000-member union, citing violations of the Sherman Antitrust Act. He also said the union threatened various



Tuesday Productions' Tom DiNoto
Litigation, exultation, expectation.



Johnson, Matthey's John Lutley

The trouble is, there are really two platinum markets.

agencies that if they continued to use Tuesday, their AFTRA contracts would be terminated—"instant death because they [agencies] no longer can get the talent they need."

DiNoto, 34, who founded Tuesday in 1969 after earning a teaching degree from United States International University, says that lost profits from lost assignments from 1975 to 1981 totaled \$1.8 million. Some accounts, like Budweiser and Michelob, continued to use the firm, but it had to rely for the bulk of its work on small local clients—department stores, banks, shopping centers and the like.

Tuesday has so far paid over \$300,000 in legal fees, with the balance to be paid to Luce, Forward, Hamilton & Scripts on a contingency basis. DiNoto says that because of appeals most likely to come, it could take up to five years before Tuesday sees any money. "It becomes very difficult for a small company to carry on this kind of endeavor," he says.

Difficult, but not impossible. On July 8 DiNoto filed a similar antitrust suit against the 54,000-member Screen Actors Guild. After the AFTRA verdict, DiNoto's 18-person shop sent the boss this jingle:

*Tom, it's four years since we saw ya
You know how we hate to annoy ya
But take off those suits,
And come back to your roots:
Though by now you're a pretty good lawyer*
—Ellen Paris

The other metal collapse

One troy ounce of platinum, which commanded more than \$1,000 in the spot market in 1980, fetched around \$295 last month, a dollar decline

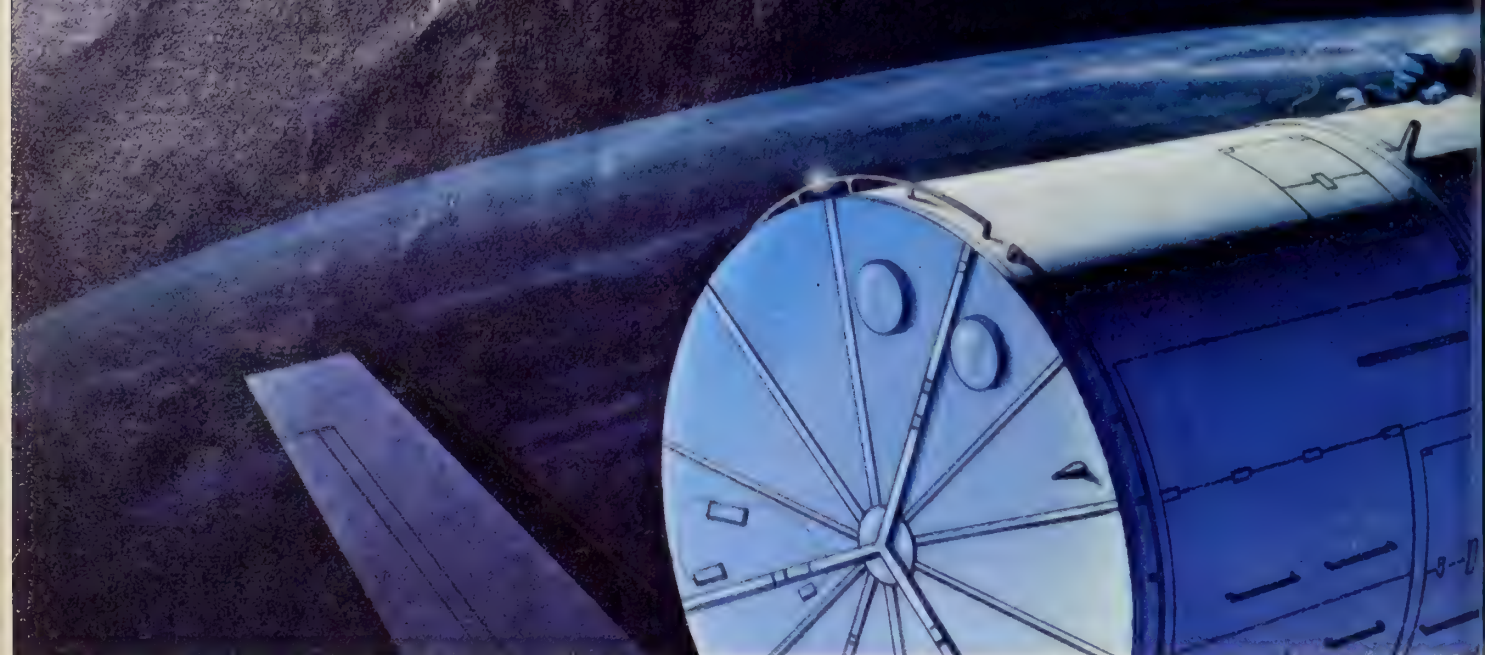
steeper than that of silver or even gold. It falls to John Lutley, 46, an urbane engineer-turned-manufacturer-and-marketer, to breathe new life into the platinum market—that is, renew speculative interest in it—despite that precipitous fall. If you think you have problems, consider his.

Lutley, Chinese-born and a graduate in metallurgy of Cambridge, is president of the North American operations of London-based Johnson, Matthey, Plc., which is the major seller of platinum to the U.S. for the output of the Rustenburg Platinum Mines in South Africa, the world's largest platinum producer. His problem is complicated by the fact that there are, as a practical matter, two platinum markets. There is the industrial market made up chiefly of automakers (for pollution controls), fertilizer producers (process catalysts) and glass manufacturers (fiberglass). Demand from those quarters, of course, has lately been rotten. Moreover, the big users buy most of their platinum on long-term agreements. Even before the recession, contract prices were well under spot prices.

Johnson, Matthey's other market—apart from the Japanese jewelry trade, which has traditionally used more platinum than have Western jewelers—consists mainly of... well, ... platinum bugs, who thought of the metal as an inflation hedge. They are the ones who took the severest beating in the past two years. Says Lutley: "Platinum fell back as far as it did because, compared to gold, there were very few people to sell to."

Lutley reckons that producers and speculators together hold a six-month supply of mined platinum above

Creating an 'eye' that will see

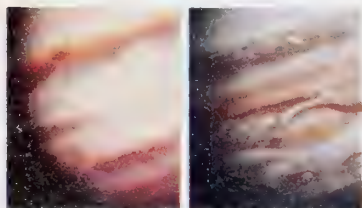


Lockheed knows how.

It's a project with promise that defies comprehension.

It's the NASA Space Telescope, managed by the Marshall Space Flight Center and being assembled and tested by Lockheed. It's scheduled for launch into 320-mile-high orbit by the Space Shuttle in 1985. And it will extend the observation reach of astronomers far out into the violent turmoil of space.

They'll look back about 14 billion light-years to where many think the universe edges lie. That's seven times farther than Earth-bound telescopes, hindered by atmospheric murk, have yet been able to see. And the telescope will find, lock onto, and study faint objects and masses only 1/50th as bright as any so far beheld.



Jupiter as seen from Earth (left) and through the clarity of outer space.

A masterpiece gets ready for action.

This astronomical observatory, the finest galactic telescope system ever built, will be a masterpiece of advanced technology in optics, instrumentation, communications, and pointing control.

It will be large—43 feet long, 14 feet in diameter, and weighing about 24,000 pounds. When carried aloft, it will occupy the entire cargo bay of NASA's big-airliner-size Space Shuttle.

Once the telescope is deployed, its solar panels (being built by the European Space Agency) will unroll like long window shades, facing the sun to convert light into battery-stored electric power. High-gain radio antennas also will stretch out into position to work via relay satellites

in communication to and from Earth.

And then the great instrument will go to work, its onboard computing and control systems already intricately programmed for the first viewing events.

The magnificent mirrors.

Capturing a wide spectrum of faint light (visible, red, blue, infrared, and ultraviolet) that has traveled billions of years is the job of the optical assembly (being built by Perkin-Elmer).

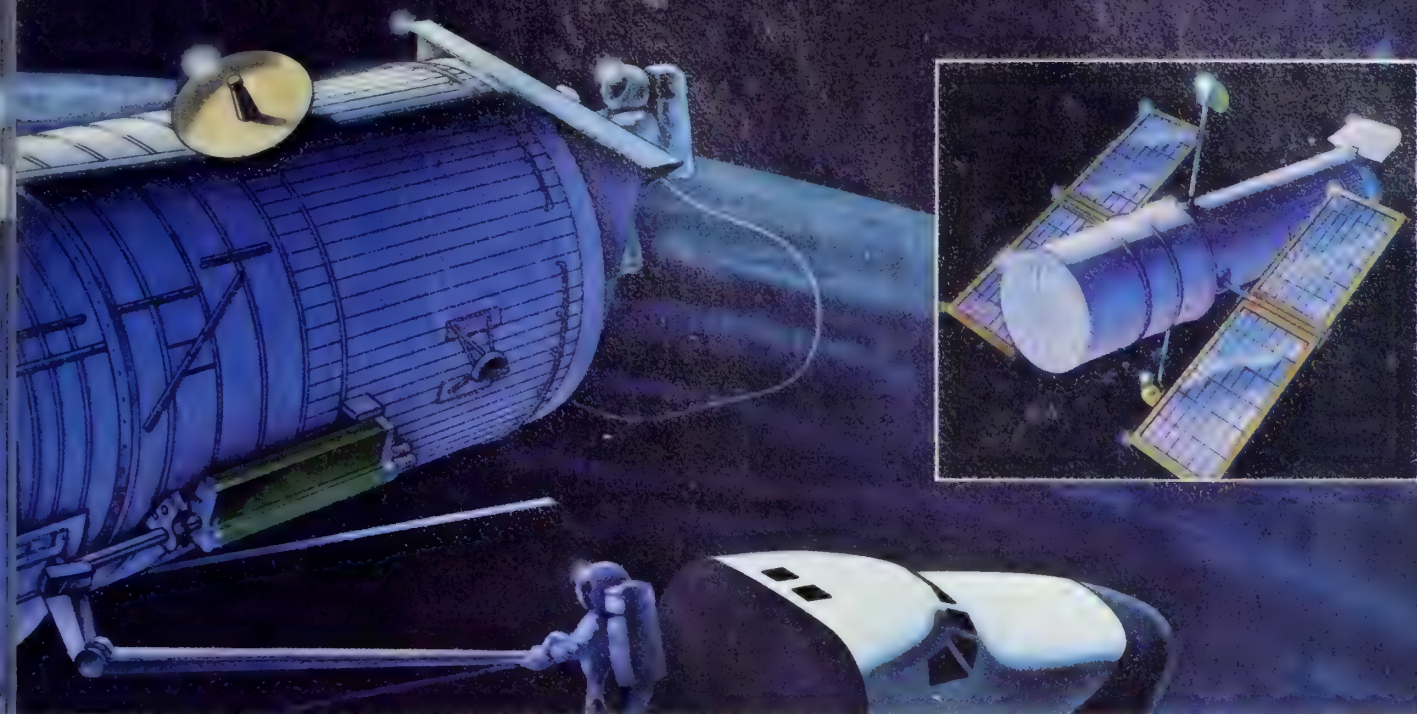


The extremely smooth, precisely shaped primary mirror surface is the result of two full years of grinding and polishing.

A concave, foot-thick primary mirror, eight feet in diameter, will receive light coming in through the telescope's sun-shielded aperture. It will reflect and focus the light forward onto a smaller, facing mirror, which will turn and reflect the light back through a hole in the primary mirror's center. The final focal plane will be shared by a complex of guidance sensors and five scientific instruments... high-resolution cameras, spectrographs, and a photometer (being built by several institutions).

In their interference-free environment, the mirrors and instruments will help produce and transmit images with

the edges of the universe.



Great Space Telescope will be tucked into orbit by the Space Shuttle, which will also serve as an occasional on-orbit service center. The telescope deployed.

ation 10 times greater than now possible with ground-telescopes.

g mankind's steadiest gaze.

ose mirrors and instruments, however, couldn't do best without a unique Lockheed pointing control n (PCS) that positions and holds them precisely on . And that is incorporated in the Lockheed Support ns Module, containing the interfacing, communica- thermal control, data management, and electric r systems.

ng sensors and gyroscopic devices, the PCS will and adjust the huge telescope into a programmed ng attitude. The Perkin-Elmer fine-guidance sensors x upon a pair of known, bright 'guide stars,' nces for finding the target.

en the target object is dead in the telescope's sight designated instruments will be turned on and other ns shut down. That's because the tiniest torque or n in a small motor or electric relay could jar the vehicle off its lock-on point.

nd how precise is that lock-on? In angular measure- there are 1,296,000 arc-seconds in a circle. For ps as long as 20 hours at a time, the telescope will onto a target with a stability accuracy of just seven andths of one arc-second in all directions.

it stability is 100 times greater than any ever achieved . It about equals standing in Boston and holding rifle steady on a dime suspended over Washington, D.C.!

ing a beauty in shape.

ckheed's innovative design will also let the telescope periodic 'house calls' for checkups and maintenance



In a neutral buoyancy tank, an astronaut goes through special training simulating the service tasks to be performed in space.

during its planned 15-year life. Armed with nothing more than a 7/16" ratchet wrench and a Lockheed-devised foot-anchoring tool, a Space Shuttle astronaut will be able to open access doors, make inspections, replace modular units, and see to the telescope's well-being. When necessary, the Shuttle will retrieve the telescope and return it temporarily to Earth for general servicing.

The world of science is waiting expectantly. The wonders yet to be discovered are waiting, too. The Space Telescope will arrange a meeting.

When it comes to bringing all this together—testing, refining, integrating all the critical elements of a miraculous scientific breakthrough—Lockheed knows how.

For more information about Lockheed, write for the 1981 Annual Report Highlights to A.C. Melrose, Lockheed Corporation, P.O. Box 551, Burbank, CA 91520.



Faces Behind the Figures

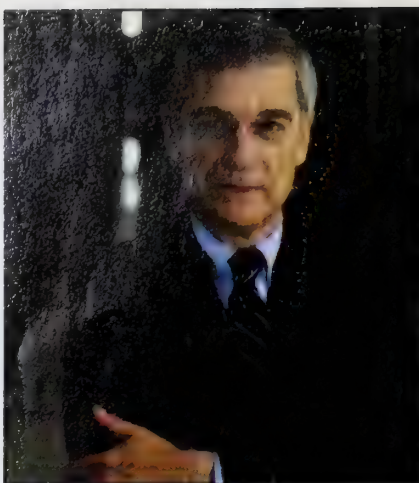
ground at the moment. Johnson, Matthey places the cost of adding to the supply at something above \$400 an ounce. It would seem, then, that any industrial recovery would soon result in better prices. But it will not be that simple. Overhanging the market is the supply controlled by the platinum bugs. Big speculators, eager to bail out, have been able to unload some of the metal they control on industrial users even in the present time of slack demand. That obviously has acted as a drag on efforts to raise prices, pressuring the mines to offer more flexible contracts and easier terms.

Lutley thinks platinum can get back to, say, \$475 an ounce "once inflation stays in the 5%-to-7% range and interest rates drop a little." Meanwhile, he is hoping to add to the demand side. Johnson, Matthey is exploring new uses for platinum in health care and electronics. Last month, too, the company unveiled a line of platinum jewelry in the U.S. Says Lutley: "We don't think platinum has been marketed properly in the jewelry business, and that's what we're going to do this year in a fairly substantial way."—Jill Andresky

Cutting a deal

The record shows that Senator Mark Hatfield (R-Ore.) is no bleeding heart when it comes to protecting business against risk and miscalculation. In 1979 he voted against the federal loan package to bail out Chrysler. Only last December he voted to eliminate sugar price supports in the farm bill. But these days Hatfield is working mightily to bail out timber cutters in the Northwest who are up to their necks in trouble.

Hatfield, remember, represents a state in which the federal government owns 51% of the real estate and where one-fourth of the timber products used by the housing industry are produced. The cutters are committed, by contracts signed when the housing market was strong and building material prices high, to pay Uncle Sam about \$6.4 billion for the right to cut timber on federal land that could fetch less than \$4 billion at today's prices. If the cutters are held to those terms, many of them would have to



Senator Mark Hatfield

Bailout or stemming a loss?

default on their contracts.

Hatfield proposes to let timber cutters cancel up to 40% of their federal contracts and rebid on that portion at today's lower prices. (Under present law the Agriculture Department can't allow that.) The cutter could then mix those lower costs with the higher costs on the remaining 60%. Outright defaults, the Agriculture Department estimates, could cost about \$1.3 billion in lost federal revenue. The Congressional Research Service, which does independent analyses for members of Congress, says the figure could exceed \$2 billion.

That's why Hatfield prefers to call his package "a very fair and equitable proposal," not a bailout. Loan packages on the order of Chrysler, he says, bail out the big operators. "This is trying to stem loss of revenue," he says, "and trying to help revive the home-building industry."

What are his chances? Hatfield says: "We can pass it in the Senate. We can patch it to some vehicle as a rider."—Desiree French

Winging it

Not too many people would want to start an airline from scratch these days. But if you are 24 and an airline pilot and you see a market niche begging to be filled, you just might be tempted. It happened to Peter Vazquez, who is all of the above. So far, so good. His tiny line, National Florida Airlines, Inc., began to break even in its third month of operation flying from Daytona Beach to Miami, while nearly all the major carriers have been dipping their wings in red ink for the past 12 months or so.

"On certain routes," Vazquez says, "there seems to be a certain inverse economy of scale that operates." He

flies a used Piper Navajo Chieftain (eight passengers and a crew of two) on the route, while Eastern Air Lines—the only major carrier on the route—flies 100-passenger-plus 727s.

With Florida National's low overhead, all it takes is three passengers to break even on the 250-mile trip. "Our planes use 44 gallons of fuel to get from Daytona to Miami," Vazquez explains. "A 727 uses substantially more fuel than that to get from the gate to the end of the runway."

Last year, while a flight instructor at Embry-Riddle Aeronautical University, a Daytona Beach-based aviation school, Vazquez noticed that the Daytona Beach-Miami route was a moneyloser for the established airlines. He lined up \$150,000 from his parents, both physicians, and put a down payment on the used Piper Navajo Chieftain. Meanwhile, he went through the CAB's arduous licensing procedure required for certification as a scheduled carrier and talked to travel agents in the Daytona area. They all wanted a flight to Miami that would let a traveler make the round trip and still get a day's work done.

National Florida now has three Piper Chieftains. And with the airline going on Republic's computer this month, enabling travel agents to book seats conveniently, it expects to gross at least \$600,000 in its first full year, producing a profit of \$60,000. It should only happen to Eastern, United and Pan Am.—Stanley W. Angrist



National Florida Airlines' Peter Vazquez
More than a wing and a prayer.

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IT USED TO BE THAT BY THE TIME
YOU GOT AROUND TO DOING SOMETHING
ABOUT YOUR INVESTMENT INCOME,
YOU'D ALREADY LOST INCOME.



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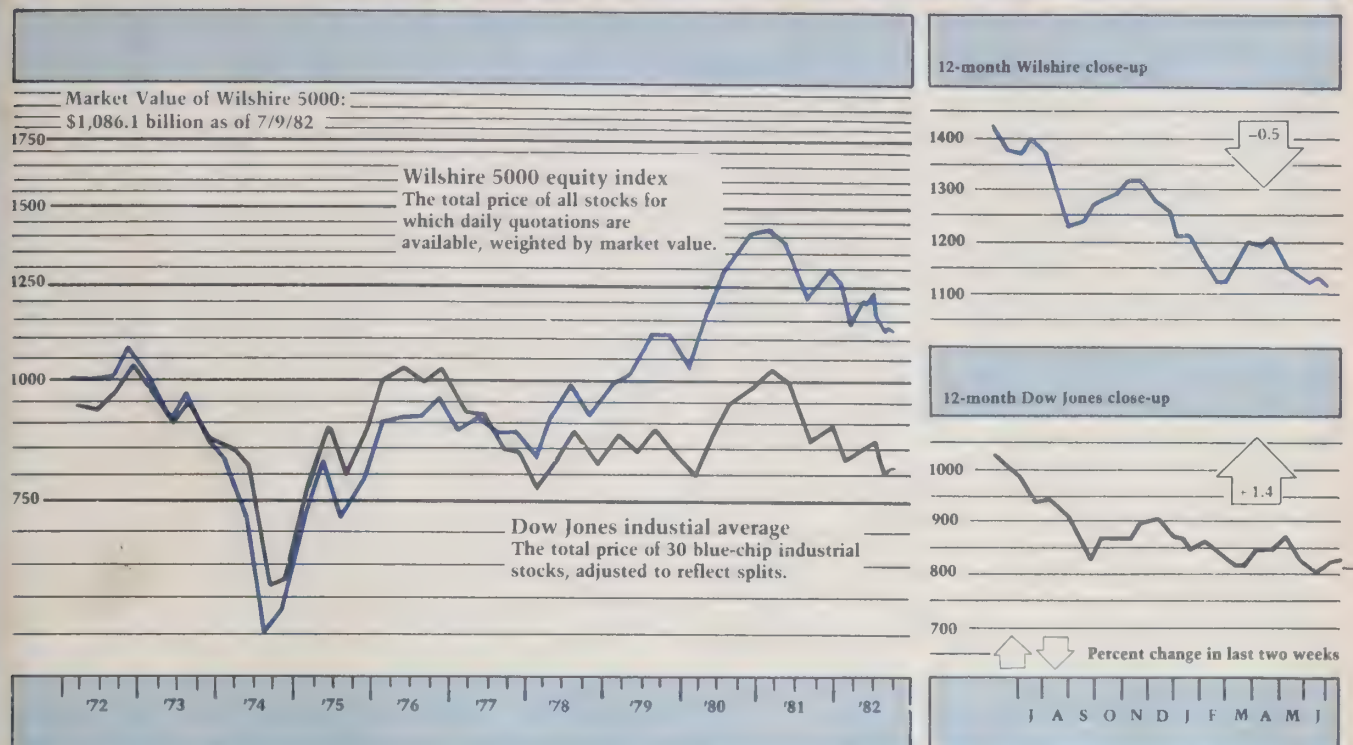


Merrill Lynch

Merrill Lynch, Pierce, Fenner & Smith Inc.

A breed apart.

The Forbes/Wilshire 5000 Review



Split decision. The 30-stock Dow industrials advanced 1.4% over the past two weeks and show a 0.5% gain over the previous month. But while the Dow registered a minor advance, the Wilshire index, which measures more than 5,000 stocks, hit a 12-month low. This raises an interesting question. Many analysts now believe that the market is hitting a major bottom. If so, will the Dow be a leading indicator of the recovery? That could be good news—especially for those investors who hold blue-chip stocks.

The weakest area of the recent market is NASDAQ issues, which are down 1.4% over two weeks and 3.2%

over four weeks. The Amex is in the red by slightly less—1.6% for two weeks and 4.3% for four weeks. On the other hand, NYSE stocks performed relatively well. They are off only 0.3% over the last two weeks.

High-P/E issues were again out of favor. This time they registered a 4.6% two-week decline. Of the ten focus groups on track, these stocks have been hit the hardest over the past year. The group is now behind almost 28% for the 52-week period. In the last two weeks, however, two focus groups fared better than the overall market: Low-yield issues lost just 0.3%, while bargain hunters helped low-P/E securities move up 1.6%.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	-2.5	0.5	-2.2	-4.3	-3.2
in last 52 weeks	-18.4	-14.8	-16.8	-31.6	-20.2

Stock performance based on five key investor yardsticks

Percent change	Volatility*		P/E multiple		Dividend yield		Growth profile†		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	-2.4	-1.4	-4.6	1.6	-1.0	-0.3	-1.8	-1.2	-2.2	-2.9
in last 52 weeks	-18.4	-0.0	-27.8	-5.3	-2.4	-11.6	-15.2	-6.0	-17.1	-17.3

*A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.

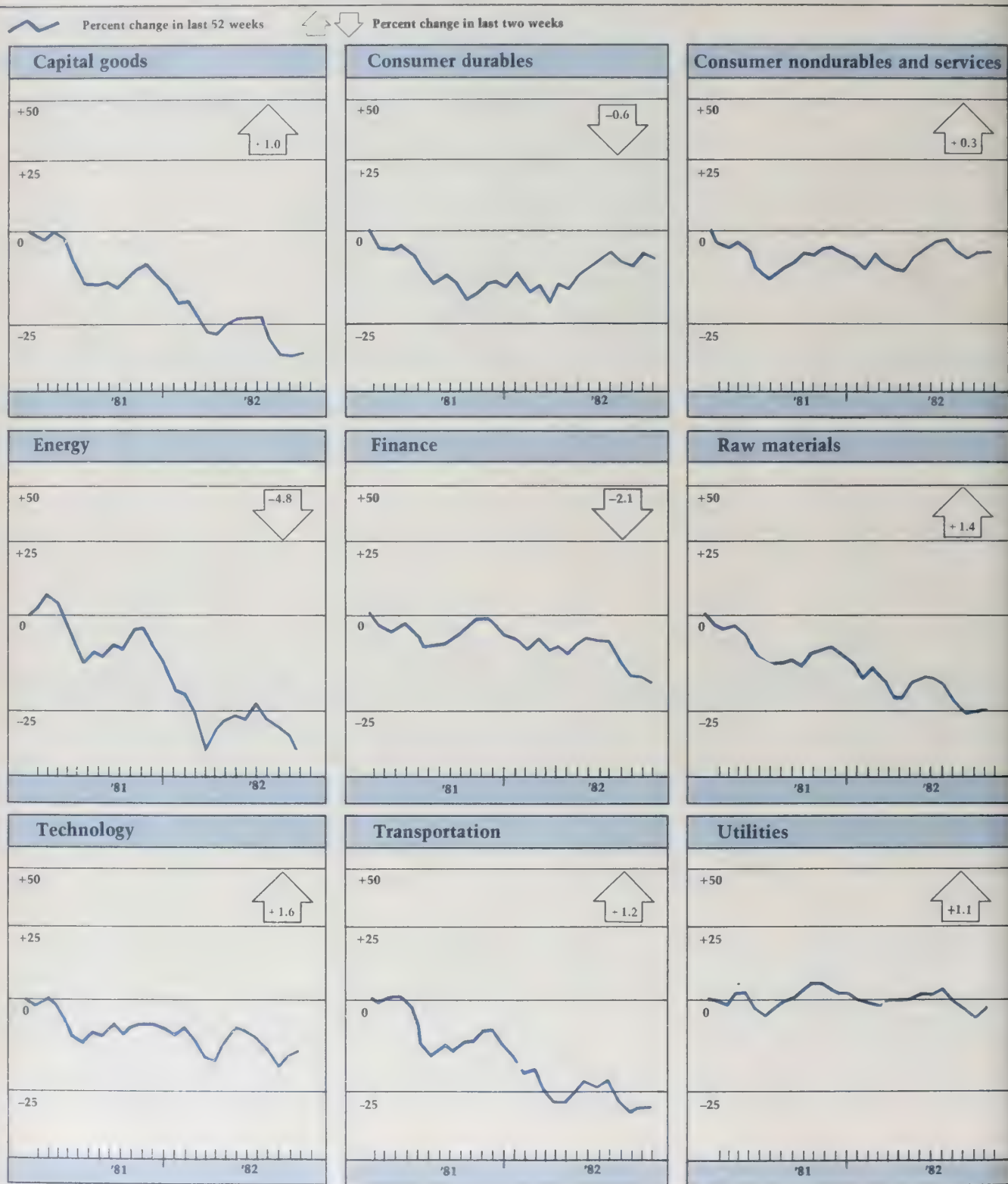
†A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 7/9/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Energy falls again. Bad news from OPEC and Oklahoma helped energy stocks lead the market down. They were off 4.8% during the past two weeks. That makes a 12-month decline of nearly 35%. On the OPEC front, investors are worried about lower prices. Back in Oklahoma, meanwhile, the collapse of Penn Square Bank led to concern about energy-related loan losses. That hurt the finance sector, too, which posted a 2.1% two-week decline.

All, however, was not gloom and doom. Over the last two weeks, six of the nine sectors clearly bucked the market and ended up in the black. Technology issues show the best advance, a 1.6% gain. Raw materials are close behind with a 1.4% jump. And transportation issues moved ahead 1.2%. Utility stocks gained 1.1% and are once again close to breaking even for the 12-month period—the best performance of any group.



Note: All data for periods ending 7/9/82. Prepared by Wilshire Associates, Santa Monica, Calif

An aerial photograph of Silicon Valley, showing a dense grid of roads, industrial parks, and green spaces. The image is in black and white, with a high-contrast, almost graphic quality. The text is overlaid on the top left portion of the image.

Not all of today's entrepreneurs are here in Silicon Valley.

If we'd been doing our work on voice recognition in Silicon Valley, perhaps you'd think of us more as entrepreneurs.

Because voice recognition—teaching computers to tell one person's voice from another—is an exciting new technology.

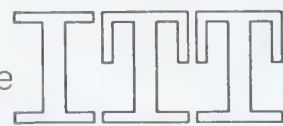
The kind that made Silicon Valley.

Voice recognition is a technology with enormous industrial and military potential.

And at ITT we've developed it to the point where it's close to being introduced in commercial markets.

ITT is International Telephone and Telegraph Corporation. Very decidedly a high-tech company.

We're investing in the future. What are you investing in?



Statistical Spotlight

Depressed by the economy? Check this list of companies that are poised to score earnings turnarounds this year.

Look what's just around the corner

By Paul Bornstein

AS THE RECESSION enters its dog days, 1982 looks more and more like a year in which you would expect lots of companies to move into the red. The surprise, however, is that some corporations are actually heading in the other direction. Look at the table below. The 16 companies on this list lost money in 1981 but should move into the black this year.

Sure, it's a motley list. Almost half the group are fledgling high-tech firms. There are also several representatives from more mundane fields such as coal mining, forest products

and trucking. But all have one thing in common: The consensus among analysts is that these companies are due for an earnings turnaround in 1982.

Westmoreland Coal and North American Coal, for example, are expected to take big leaps forward. Last year Westmoreland was hit by a United Mine Workers strike; North American Coal had taken writeoffs from mine closings in addition to labor troubles. With these problems behind them, however, both companies should be close to their traditional levels of profitability this year.

Then there's Centran, a Cleveland-based bank holding company. "Three years ago they bet on municipal bonds

and lost," says Bob Back of Prescott Ball & Turben. So far this has cost Centran roughly \$20 per share. Now, however, Back likes the stock because of its liquidity. The company picked up \$60 million from selling its bonds at a loss and \$70 million from selling a nonvoting preferred stock to Marine Midland. The consensus earnings estimate for Centran is \$1.33, but Back is more bullish and expects to see \$2.10 in 1982.

GenRad, a maker of testing equipment for semiconductors and printed circuit boards, is another potential turnaround. Its Development Systems and Semiconductor Test divisions once produced big losses, but one of those operations is breaking even and is up for sale, while the other is somewhat closer to profitability. "Anticipation of an earnings turnaround has already helped the stock regain some lost ground," says John Geraghty of Dean Witter Reynolds.

All the news isn't good, of course. The 14 companies on our second table (see p. 96) were profitable in 1981 and seem likely to post big losses this year. With steel mills now operating at an average of 45% of capacity, this list resembles an industry *Who's Who*. Florida, Inland, National and Republic have already cut their dividends—a good indication that tougher times lie ahead.

Playboy Enterprises is an interesting situation. It is expected to fare poorly because of the loss of its highly

Breaking into the black

The 16 companies below all posted losses in 1981, but analysts predict that they will become profitable this year.

Company/business	Recent price	52-week price range	Earnings per share				Dividend	Yield
			1981	1982E	12 months latest			
American Mgmt Systems/comp softwr	12¾	16¾- 9¼	-\$0.46	\$0.92	-\$0.45	—	—	
AVX/electronics	17	35½-11½	-0.60	1.09	-0.75	\$0.32	1.9%	
Bohemia/forest products	11⅛	23⅝-10⅞	-1.96¹	1.62	-1.13	0.66	5.9	
Centran/bank	13	22 -13	-5.71	1.33	-24.48	0.40	3.1	
Coastal Corp²/oil	20⅜	59½-18⅛	-1.36	2.45	-1.69	0.40	2.0	
Colonial Penn Group/insurance	13⅞	22⅛-12	-1.44	1.79	-1.32	1.40	10.3	
Compugraphic/phototypesetting	11½	27 - 9¾	-1.33	1.26	-0.99	—	—	
Cordis/medical instr	24½	29¾-14½	-3.25	1.16	0.32	—	—	
Flexi-Van/trucking	19¼	25⅝-12	-0.15	2.49	1.32	0.80	4.2	
GenRad/electronics	19	22⅛-11⅞	-0.23	0.81	-0.18	0.10	0.5	
Golden West Homes/manufctrd homes	8	12⅝- 5⅞	-0.16³	0.72	-0.16	—	—	
Natl Semiconductor/electronics	19⅞	28⅝-15¼	-0.47³	1.30	-0.47	—	—	
North Amer Coal/coal	27⅞	40¼-20¼	-0.16	4.90	1.08	0.80	2.9	
Siltec/electronics	9¾	16¹ - 7½	-0.53	0.55	-0.58	—	—	
JP Stevens/textiles	14⅝	18 -11⅞	-1.59	1.33	-1.46	1.20	8.2	
Westmoreland Coal/coal	16¾	29 -16¼	-2.17	2.65	-0.85	—	—	

¹ Fiscal year ending May 31 1982
² Plans to spin off two companies
³ Fiscal year ending May 1982

⁴ Playboy recently announced it expects a net loss of \$35 million in 1982
⁵ Consensus estimate

Source: Institutional Brokers Estimate System On Line, Lynch, Jones & Ryan

The people who created the country music industry fifty-five years ago launched a new satellite cable TV network this year.

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Statistical Spotlight

profitable casino operations. But the company has a minimum debt, is awash in perhaps \$80 million in cash and could realize \$30 million or so if it has to sell its Atlantic City holdings. If management can put these funds to good use, the stock may again become attractive.

The earnings estimates were provided by Lynch, Jones & Ryan's Institutional Brokers Estimate System On Line (IBOL). Each estimate is the average of the opinions of three or more analysts. In order to qualify for our lists a company had to either earn at least 50 cents a share in 1981, or be expected to earn this amount in 1982.

Most of the turnaround candidates in the first table are now selling close

to their 52-week lows. Whether they will perform according to the analysts' expectations is another question. "The trend has been toward lower earnings estimates," says Stanley Levine, a Lynch, Jones & Ryan vice president. "That means the list of companies expected to move into the black is likely to get smaller." It also means that the list of projected moneylosers is likely to get bigger. ■

Seeing red

These 14 companies were profitable last year, but if analysts' estimates are correct they will lose money in 1982.

Company/business	Recent price	52-week price range	Earnings per share				Yield
			1981	1982E	latest 12 months	Dividend	
Asarco/metals & mining	21	42 $\frac{7}{8}$ —17 $\frac{1}{4}$	\$1.54	—\$0.27	\$0.55	\$0.40	1.9%
Bethlehem Steel/steel	15 $\frac{1}{4}$	25 $\frac{1}{4}$ —15 $\frac{1}{8}$	4.83	—0.95	2.71	1.60	10.5
Brown & Sharpe Mfg/industrial mach	12 $\frac{5}{8}$	29 $\frac{1}{4}$ —12	1.93	—0.61	0.06	0.80	6.3
Florida Steel/steel	11	31 $\frac{1}{8}$ —10 $\frac{1}{2}$	3.37	—1.35	1.14	0.52	4.7
Gleason Works/industrial mach	9 $\frac{1}{8}$	18 $\frac{7}{8}$ — 8 $\frac{1}{2}$	1.72	—0.49	0.69	0.80	8.8
Harnischfeger/construction equip	7 $\frac{1}{4}$	15 $\frac{5}{8}$ — 6 $\frac{7}{8}$	2.93	—0.56	1.80	—	—
Inland Steel/steel	20 $\frac{1}{4}$	30 $\frac{3}{4}$ —18 $\frac{3}{4}$	2.69	—0.70	0.58	1.00	4.9
Kaiser Aluminum & Chem/aluminum	12 $\frac{1}{2}$	23 $\frac{3}{4}$ —12	3.08	—0.15	0.90	0.60	4.8
National Steel/steel	14 $\frac{3}{8}$	27 $\frac{1}{8}$ —14 $\frac{1}{8}$	4.20	—2.83	1.22	1.00	7.0
Phelps Dodge/copper	22 $\frac{1}{2}$	46 $\frac{3}{8}$ —20 $\frac{3}{4}$	2.61	—1.16	0.35	0.40	1.8
Playboy Enterprises/publishing	8 $\frac{7}{8}$	13 $\frac{1}{4}$ — 5 $\frac{1}{2}$	1.45	—1.98 ¹	—2.73	0.12	1.4
Republic Steel/steel	17 $\frac{1}{4}$	29 $\frac{1}{4}$ —17 $\frac{1}{8}$	11.75	—2.06	4.15	1.00	5.8
Revere Copper & Br/metal fabricating	8 $\frac{1}{2}$	25 $\frac{3}{8}$ — 8 $\frac{3}{8}$	1.64	—1.40	—0.70	—	—
Southwest Forest Inds/forest products	9	22 $\frac{1}{4}$ — 8 $\frac{3}{4}$	1.13	—0.58	0.14	—	—

¹Fiscal year ending April 1982. Plans to spin off two companies million (–\$3.50/share) in 1982. E: Consensus estimate.

²Fiscal year ending May 1982. ³Playboy recently announced it expects a net loss of \$35 million. Source: Institutional Brokers Estimate System On Line, Lynch, Jones & Ryan

The Money Men

Larry Tisch made a fortune in real estate. Then he made a fortune in common stocks. Now, he doesn't like either market.

Tips from a master

By Ben Weberman

THERE ARE PLENTY of people who will tell you that Laurence Tisch is the smartest investor around. So, when one has a chance to interview the Loews Corp. chairman, the obvious question is: What looks good to you? Larry Tisch's reply comes as a bit of a shock. He doesn't

much like the stock market these days. He thinks even less of real estate. So, what is Larry Tisch buying? Bonds.

Bonds—those certificates of guaranteed confiscation? Yep. Since last year Tisch has cut the stock position of CNA Financial Corp., Loews' insurance subsidiary, by "a few hundred million dollars" and moved that mon-

ey into bonds, which, as of now, he believes will outperform equities for the next year or so. "But things change so fast, everything is subject to review."

That's the style of Larry Tisch. Loews has most of its taxable investment in Treasury securities—with maturities of up to seven years. The company pension fund is primarily in Treasuries, with a minimal amount in Aaa- and Aa-rated industrial bonds and common stocks. "I will buy corporate bonds when the time comes," Tisch explains, "but the historic spread between Treasury issues and other debt obligations doesn't exist today, so Treasuries represent the best values here."

Tisch, with his 29-year-old son, James (Loews vice president, financial analysis), at his side, began buying bonds for CNA in 1981. During the year, he sold \$400 million worth of stocks, two-thirds of CNA's equity holdings. Meanwhile, he poured the money into Treasury and government agency debt obligations and some tax-exempt securities. Tisch sold much of

30% of the products Brazil exports leave by way of this jungle.



Think of Brazil and perhaps you conjure up images of a vast illimitable jungle... A land that's primitive, exotic, mysterious. Journey to Brazil and what you'll really find is a modern, progressive nation... A country boasting a magnificent megalopolis like São Paulo with its 12.5 million inhabitants. It is through the state of São Paulo that the majority of products exported by Brazil are shipped abroad. Today, Brazil is one of the ten most heavily industrialized nations in the west... and is soon to become the world's second largest exporter of food. As recently as 1969, Brazil possessed not a single facility for manufacturing aircraft. Today, it supports the sixth largest airplane industry in the western world.

Brazil's other key exports include household appliances, quality shoes, superb textiles, medical-hospital equipment, diverse technology, and countless other products and services to numerous countries spanning the world. Thanks largely to its development and expansion of hydro-electric energy, whose potential is estimated at 213,000 MW/h, Brazilian industry has developed rapidly and efficiently. Proof? Just 12 years ago, total Brazilian exports amounted to 2.7 U.S. billion dollars. In 1981, exports totalled 23 billion dollars... and are still climbing. Brazil has a population of 120 million, more than half under 20 years of age. By 1980, the nation's GNP had already reached 236 billion dollars. Obviously, a nation with this strong

growth rate needs a strong imaginative bank that can keep pace with this development. Brazil has such a bank... Banco do Brasil. Since 1941 when its first foreign branch opened for business, Banco do Brasil has been instrumental in bringing together foreign investors and Brazilian businessmen. In opening new markets and expanding traditional ones, Banco do Brasil expertly orients businessmen in their dealings with the Brazilian market. Because experience counts, look to Banco do Brasil to assist you with your business transactions, investments and joint ventures with Brazilian businessmen.

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The Money Men

his position at the bond market's February high.

Since then he has bought back in. As you can see, he trades bonds rather than just holding them, which helps explain why the bulk of his bond portfolio is in medium-term Treasury issues. Treasuries are preferred to other federal issues or industrial obligations because they can be moved easily in blocks as large as \$100 million, he points out.

Now he's buying again. "I am still not prepared to put much money in long-term Treasury securities," Tisch explains. "We see just as much possibility for gain and less possibility for loss by staying in the five-to-seven-year area." As Tisch views such bonds, they are a can't-lose situation. Even if the prices don't move at all, with interest at 15% you more than double your money every five years. Guaranteed.

Tisch is downright bearish on real estate—a subject on which he is one of the country's leading authorities. "I would buy a building tomorrow if the price were right," but at this point most are priced out of the market. He has been buying and selling properties since his early twenties, when, he acquired, in 1946, Laurel-in-the-Pines in Lakewood, N.J. He makes it a rule not to fall in love with a piece of property, though. "I never look back with regret on any sale," he says, including that of the Traymore, Ambassador and Brighton hotels in Atlantic City in the mid-1960s, long before the gambling boom began. That's one of the keys to his success. Tisch is a cold-blooded seller, as well as a cold-blooded buyer.

Some sales, however, Tisch can recall with legitimate pleasure. For example, he sold his Americana Hotels in New York, Bal Harbour, Fla. and Puerto Rico to American Airlines in the early 1970s, at the height of the hotel boom. He also disposed of the Drake and Warwick hotels in New

York for \$100 million, and a group of apartment houses for another \$100 million. "There was a fantastic [real estate] move in the last five years and things are in the process of coming back into balance," he says. "That is going to take a long time."

Tisch doesn't foresee a real estate collapse like that of the early Seventies. This time, he says, property values will erode slowly and prices will go nowhere for the next few years. "Rents in the commercial markets here in New York have gone from \$10 to \$50 a square foot. They can fall back to \$30 or \$35."

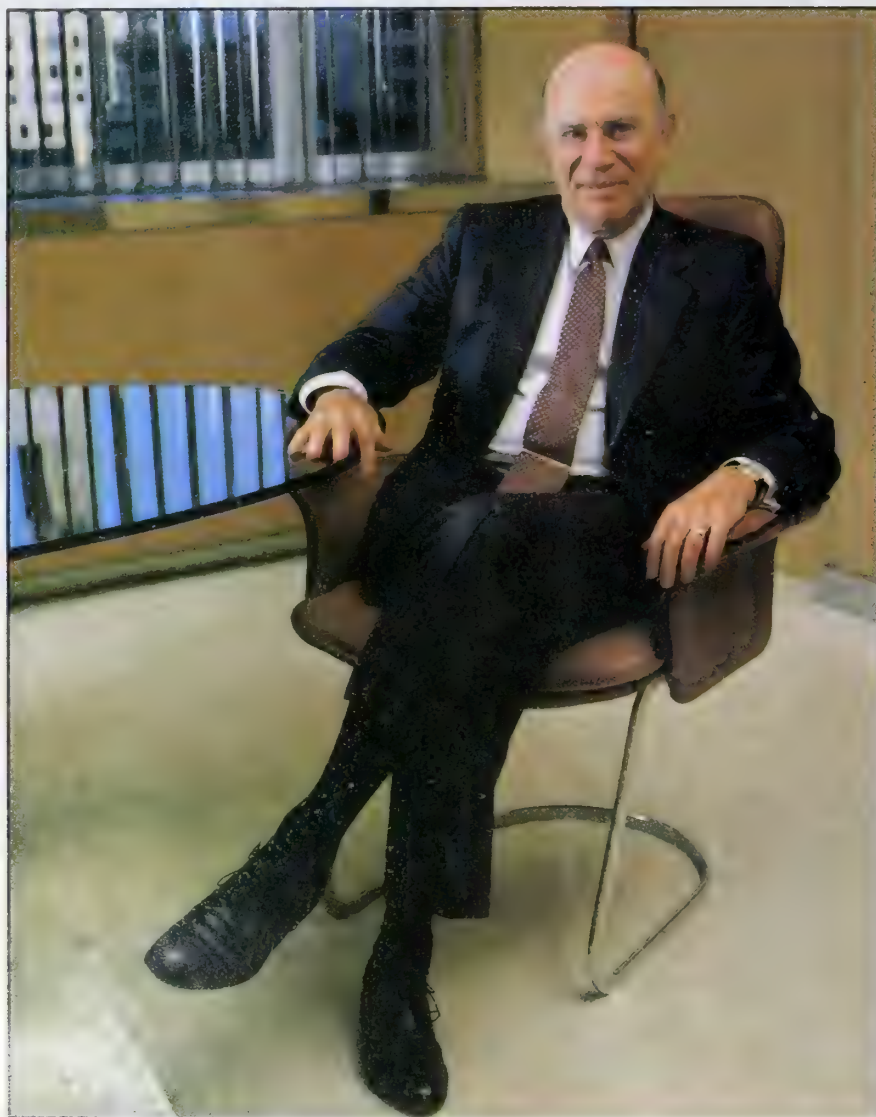
What about stocks? "I don't think the economy is necessarily turning," he replies, but adds that he thinks some financial service stocks offer relatively good values: "I am just betting that while there may be problems for financial service companies, the prices of the stocks are in the process of discounting them. They're not a buy because I'm bullish," he stresses. "They're a buy because they represent real value."

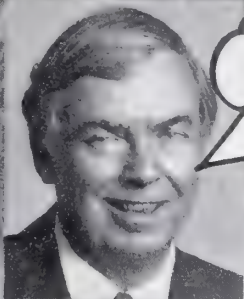
Using the value criterion, a stock group that interests Tisch now is international oils. "We think they seem to be in a bottoming area," he explains. "I'm referring to companies such as Texaco, Exxon, Standard of California and Mobil. These companies will prosper whether the price of oil is \$34 a barrel or \$32 a barrel. Now they represent great intrinsic value. The yields are so high that the risk is quite small, and the potential gain is quite huge. Tisch sees the same opportunity in the steel, paper and aluminum industries.

Value or no, Tisch thinks the stock market is testing its lows. Bank-stock trading is a good indicator of investor confidence, he says. "They've been hitting new lows in the last month or so," he explains. "This shows a certain amount of worry about the whole economic situation." ■

Investor Larry Tisch

After cutting his stock position, Tisch moved into bonds, which he believes will outperform equities for the next year or so. Tisch trades bonds rather than just holding them, which helps explain why the bulk of his portfolio is in medium-term U.S. Treasury issues. "Things change so fast," he explains, "it's all subject to review."





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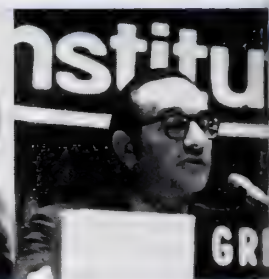
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guest speakers in their views on the economic outlook

What would you think of a law aimed at reducing crime by penalizing the victims? That's what Senator Dole's committee would do with tax-exempt borrowing.

ONLY IN D.C.

By Ben Weberman



State and local government officials denounce the allegedly destructive effects of New Federalism—the return of taxation, regulation, spending and bureaucracy to the grass roots. The federal government is bankrupting them, they claim, by forcing them to assume social programs now funded in Washington.

Many local governments and some states are experiencing severe financial strain. More than a few, however, have themselves to blame. Governments that once could raise long-term funds for schools, roads and firehouses at an interest cost two-thirds that of Treasury issues now pay almost as much as the Treasury—and sometimes more.

How have the state and local governments brought this situation on themselves? By abusing tax exemption on their debt to finance theaters, hotels, homes for the affluent middle class, new plants for Standard Oil of California and other AAA-rated credits.

Enter the Congress. Does it propose putting a halt to the abusive use of state and local credit? Not at all. Instead, it proposes penalizing investors who, in good faith, accept a relatively low yield in tax-exempts in order to reduce their federal income tax burden. The tax bill

that emerged from Senator Robert Dole's (R-Kans.) Finance Committee includes a minimum tax on income—including interest from state and local debt—of as much as 20% for individuals with more than \$50,000 of taxable income. The new tax wouldn't apply to existing issues, only to those issued after Dec. 31, 1982. If the provision becomes law, local governments will end up paying even higher rates.

Might I suggest an alternative, Senator Dole? If you want to stop the leakage of tax revenues through the abuse of the local government borrowing privilege, how about slapping down on the issuers?

I recently added up the worth of all the private-purpose borrowing done by local governments on a single day, Tuesday, June 29. It came to more than \$800 million. No wonder governments complain they can't raise money cheaply for legitimate government purposes. On that day, despite publicly expressed concerns, the municipal market was raising at least \$400 million for private housing, dozens of hospitals were being financed (some for the benefit of doctors who "manage" them). Six airport hotels were financed with industrial development bonds that day.

The bill also curbs the use of tax-free bonds for private use. For example, industrial development bonds would be eliminated after 1985. On the other hand, restrictions on mortgage bonds designed to channel money to home buyers would be eased.

To use a homely analogy, the Senate committee would penalize the victim rather than the criminal, the criminal being politicians who use tax-exempt borrowing privileges to buy special-interest votes.

Should investors, therefore, shun tax-exempts, at least until the

smoke clears? Not necessarily. Some of the yields available today are simply too tempting. Besides, the new tax would not apply to existing issues. But the question of quality is paramount. Steve Hueglin, partner in Gabriele, Hueglin & Cashman, Inc., says buyers should stick to bonds that have solid guarantees or insurance. U.S. government backing is available in some local issues, but the degree of guarantee differs—so know what you are buying. Public housing authority bonds and the short-term local project notes are full faith and credit obligations of the U.S. Treasury. Nothing is hedged.

A 20-year PHA carrying a 5% coupon sells for a yield to maturity of about 11.25% (a price of 51), producing a current return of 9.8%.

Pre-refunded or escrowed or special obligation bonds are also top quality because they are collateralized by U.S. Treasury issues.

The best of the federal agency insured bonds are those collateralized by GNMA mortgages. Typical is the New York State Dormitory Authority St. Vincent's Hospital 8½% of 2015, which are trading to yield 11.38%. Most Dormitory Authority bonds are not backed by GNMA mortgages, so take care in ordering.

Other issues with government backing include those used to finance certain projects carrying FHA mortgages. The variety of FHA projects is too great to list.

You can get a South Carolina State Housing Authority FHA-backed bond due in 2025 with a 13¼% coupon priced at 99 to yield 13.38%, rated Aa by Moody's and AAA by Standard & Poor's.

Prices on tax-free bonds already discount most of the oversupply and the potential tax burden. But the credit risks are large and I can't say it too often: Stick to the highest-quality securities.

The misplaced decimal

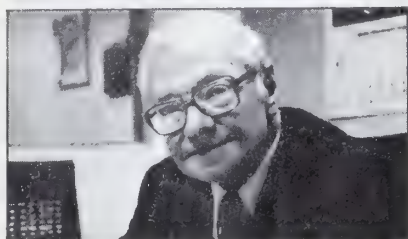
There was a decimal point error in my column on stripped Treasury bonds (*July 19*). The discounted present value of a \$1,000 T bond corpus due in 2001 was expressed at \$6.40, based on an assumed 14.7% compound interest return. The figure should have been \$64.04. My phone has been ringing endlessly. Boy, do I have attentive readers! ■

Ben Weberman is economics editor of FORBES magazine

If you can afford to take a greater risk for greater opportunity, you should not shy away from today's stock market.

BAD NEWS, GOOD OPPORTUNITY

By Heinz H. Biel



Government economic statistics should be read with skepticism. Not that they are intentionally misleading, but the margin of error is so wide that fractional percentage changes—up or down—are rarely meaningful. Nevertheless, a growing number of indicators now suggest that the recession reached bottom some time ago and that a recovery is under way. Many people doubt that there will be much vigor to this recovery, primarily because of continuing high interest rates, but the prospect of any improvement is a lot better than a further downdrift of the economy.

That's the good news. The bad news will be forthcoming in the weeks ahead, when corporations report results for the first half of 1982, especially for the second quarter. Although many corporate managements have dropped hints, if not outright warnings, that earnings have not been good, in all too many instances they will be worse than had been expected. Well, you may say, isn't this why stocks have been acting so miserably this year? This is true, of course, but because the price of their stock is already so deeply depressed, few managements will bother to embellish their earnings statements by sweeping problems under the rug. You might as

well let it all come out now. That is why one had better be prepared for some unpleasant surprises.

At the same time, readers of these interim reports should look for distortions resulting from accounting gimmickry. It is *operating* results that matter. Proceeds from the sale of property or entire divisions may keep the likes of Pan Am or Harvester afloat a while longer, but the gains, if any, from such dismemberments are certainly not "profits."

This year we will see another source of phantom profits coming from the swap of bonds for stocks, an ingenious device (created by Salomon Brothers' Warren Foss less than a year ago) to spruce up the balance sheet by improving the debt-to-equity ratio. This is a complete reversal of corporate practice in recent years when inflation was flourishing—if that's the right word—and leveraging one's capital structure was the quickest way to boost per-share earnings. Teledyne was especially good at that game, issuing vast amounts of debentures in exchange for its own stock, thus greatly reducing the number of outstanding shares.

Now, with disinflation, we have de-leveraging. It is done by having an investment banker accumulate large amounts of old, fairly low-coupon bonds now selling at a deep discount. He will swap them for that company's shares, which are then being sold to the public. Because the company gets its bonds back at a price far below par, it makes a "profit," a paper profit that is not edible and does not improve the company's cash position.

U.S. Steel did it recently on a large scale, swapping \$178 million of various debt securities in exchange for more than 5 million shares of its stock, which were

promptly sold to investors at 18¼. U.S. Steel made a tax-free profit of about \$80 million on the deal. Sounds great, but I don't like it. The company's multibillion-dollar debt is so huge that reducing it by a mere \$178 million is all but meaningless. However, issuing 5 million shares of stock at about \$18 a share—the book value at the 1981 year-end (before the Marathon Oil acquisition) was \$69 a share—represents a rather meaningful dilution of its equity by increasing the outstanding stock by more than 6%. Would you want to buy back a 7% mortgage on your home with yet another 15 to 20 years to run, even at a sizable discount, and pay for it by selling shares you own at prices near their lowest price in a decade? I don't think I would, but scores of companies are doing it now. Why? To make a paper profit.

Although the list of new lows is getting shorter, which means that most NYSE stocks have already passed their bear-market lows, the major stock averages may still decline to new lows before giving the signal that an upturn is under way. At that point one has to make the decision where to invest the money held in reserve for buying stocks. Should one buy those that have been acting well in recent months and have seemingly predictable earnings growth prospects, or should one buy those deeply depressed, cyclical stocks which at present have no friend in the world?

Obviously, there is far less risk in Johnson & Johnson, PepsiCo, Pfizer, Kodak, Procter & Gamble and the like than in stocks of companies that are having a rough time right now and whose dividends are not entirely secure, like a Caterpillar Tractor, Alcan Aluminium or Dow Chemical. I don't think it is possible to give a straightforward answer to the above question since so much depends on the nature of the recovery we are likely to get. If it is a feeble one, as many economists predict, it may be better to play it safe and to forget about possibly doubling your money. However, unless you are an abject pessimist, and if you can afford to take a greater risk in return for greater opportunity, you should not shy away from the rare opportunities now staring us in the face. ■

Heinz H. Biel is a vice president of the NYSE firm of Janney Montgomery Scott.

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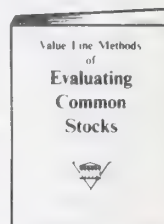
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The Contrarian

The selloff in multi-line and casualty insurers provides an opportunity to pick up first-rate companies at fire-sale prices.

THE JEKYLL-AND-HYDE SYNDROME

By David Dreman



In a shell-shocked market, perceptions of what represents good value and what should be kicked out change faster than you can say Jekyll and Hyde. It's the "shock effect phenomenon" at work, according to George Katona, the father of psychological economics. When firmly held beliefs are shaken, Katona says, people often endorse the opposite case with even greater enthusiasm. Thus, ex-lovers tear each other's eyes out, atheists become powerful believers, alcoholics become unbearable teetotalers.

In the marketplace, disappointing events (poor earnings' reports are among the most lethal) now cause experts to see with brutal clarity major flaws in companies and industries they previously scrambled to buy. Often, this new insight is so radically different that excellent companies are driven down to badly underpriced levels. Such situations present sheer opportunity.

You can see an excellent example of "shock effect" at work in the recent massacre of the multi-line and property and casualty insurers. Through 1981 and the first four months of 1982 these stocks performed exceptionally well, scoring good gains in the face of a

sharply declining market. Although a cyclical downturn had been anticipated by many institutional analysts since mid-1980, earnings only began to turn down in this year's first quarter. Sure enough, as their earnings reports came out in early May, market perceptions turned a quick 180 degrees. A doomsday scenario sprang up, projecting that woeful times would continue almost indefinitely. The group began to free-fall: Aetna declined from 48 to 32, CIGNA from 55 to 31, Crum & Forster from 36 to 24.

A major selloff is an excellent time for low-P/E investing, a chance to pick off first-rate companies at fire-sale prices. I believe the Chicken Littles will be proven wrong about these insurers. Here's why.

Though the industry has always been cyclical, each earnings peak has been substantially above the previous one. Over the past ten years, for example, Aetna's earnings have increased at a 15% annual clip, Crum & Forster's at nearly 30%. Remember that the most stable component of the property/casualty industry's earnings is investment income. With the much higher interest rates prevailing in recent years, this income has shot ahead rapidly—for many companies at about a 20% annual rate. Investment income now dwarfs cyclical underwriting income. Given interest rates almost double the level of a decade ago, rising investment income is likely to continue.

Finally, as underwriting losses increase, companies have traditionally been more careful in screening the business they accept, cutting back on loss leaders. The bottom line should be another major secular gain in earnings from previous peaks, with the favorable compari-

David Dreman is managing director of Dreman, Gray & King, Investment Counsel, New York, and author of Contrarian Investment Strategy.

sons commencing in 1983.

Moreover, although industry dividends have risen fast, they are still low, even relative to current earnings, and are expected to increase 8% to 10% both this year and in 1983, and 12% to 15% after the recovery begins.

But what about another bugaboo, lower inflation or—horror of horrors—deflation? Under scrutiny, this bogeyman isn't very scary. Lower inflation should result in a slowing down or even a halt in the rising costs of the average claim in autos, housing and most other property-and-casualty lines. While interest rates may decline, affecting investment income, underwriting losses should also drop, diminishing and perhaps nullifying the effect on earnings. Moreover, bonds, the major portion of the industry's assets, would increase in value with declining interest rates.

If you agree that this hardly makes for an end-of-the-world scenario, the following companies look interesting today:

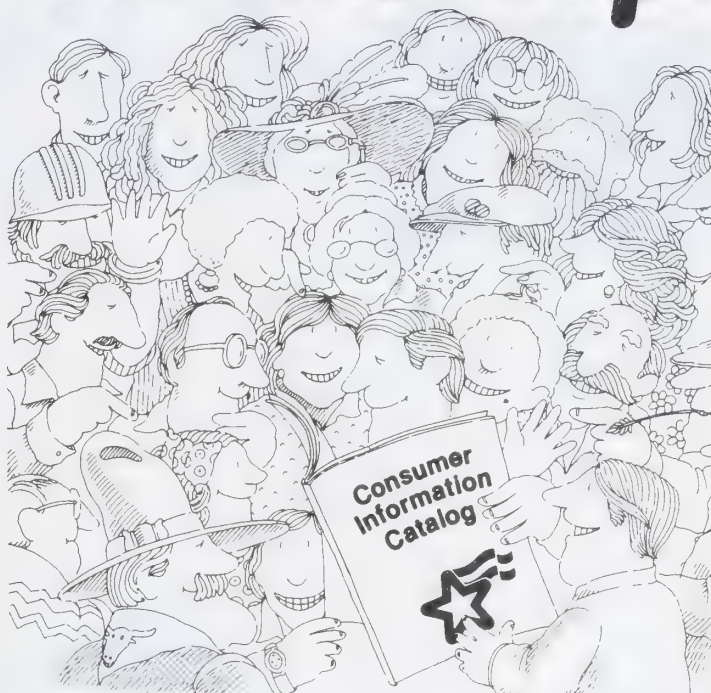
Aetna (33) is the largest of the multi-line insurers. In spite of its sharp drop, AET should have flat to slightly rising earnings this year. The stock trades at a P/E of 6 and yields 7.5%.

CIGNA (31), the result of the merger of Connecticut General and INA, is the second-largest stock-owned multi-line company. Poor first-quarter earnings sent the stock down sharply. Underwriting results should begin to improve in 1983. The stock trades at under 5 times depressed 1982 earnings and yields 7.4%.

Crum & Forster (24) is the 15th-largest property and casualty insurer. Although earnings should be down somewhat for the full year, improving results are likely to begin next year. The stock trades at a P/E of 5 and yields 6.6%.

For those of you who can look beyond the next few quarters, the current panic in insurance stocks provides the chance to buy some excellent low-P/E companies on depressed earnings, with a high probability that both income and dividends will rise substantially in the next few years. Investors who both understand and have the courage to play the market's Jekyll-and-Hyde syndrome should pile up some big rewards in the years ahead. ■

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A little-noted aspect of the current economic situation is the soaring cost of R&D.

THE WRONG TIME TO SLOW DOWN

By Srully Blotnick



"I'm not sure we can adequately fund our R&D program [here] by ourselves anymore."

Considering that U.S. industry depends upon advanced technology to keep it competitive in a world of growing international competition, the above comment sent a chill through me. Especially so since the man who made the remark was a senior executive of a famous computer company. Recently, I had a chance to survey 500 of the nation's top and middle managers and was surprised to hear how widespread this sentiment is.

How do such comments square with reports that R&D outlays were up 15% last year and are rising this year? Simple: Spending is rising chiefly because costs are; there has been no slowdown in inflation as far as R&D costs are concerned.

Why is that such a problem now? To begin with, declining profit margins. As long as these firms were growing rapidly and profitably, an extensive R&D program was viewed as necessary and affordable. "I'd have been willing to borrow [the needed funds]," said an electronics exec. "It's that important."

It hasn't become less necessary. If anything, it has become more. But

with the cost of borrowed money remaining in the stratosphere, R&D must be financed internally. And that's the rub: Just at the time when sky-high interest rates have thrown high-tech companies back onto their own financial resources, the needed earnings vanished. "I don't know if the public realizes it," said the computer company executive, "but we've been hit by a real one-two punch in the last few quarters."

It has actually been a one-two-three punch. Many of these companies have gotten used to financing growth not only through earnings and loans, but also by using equity offerings at hefty P/E ratios on a regular basis. But in today's depressed market, equity financing is prohibitively expensive.

Some things won't wait, though. With the rate of innovation increasing in computers, semiconductor technology and genetic engineering, even last year's R&D budget may well prove too small this year. If the current situation arising from expensive borrowing and depressed earnings were not bad enough, there are other long-term problems that will continue even if profits improve and interest rates come down. One has to do with earning money from scientific and technical creativity *after* the ideas, processes or products have been developed.

"We used to be able to license our technological innovations abroad," many executives commented. "And made good money doing it. But that's too risky now. I'm not so sure we're acting in our own best interests to sell the Japanese—or anyone else—our most valuable technological secrets so soon after we come up with them. Maybe it's penny-wise and pound-foolish."

There is another important factor that these executives rarely ex-

pressed, yet whose consequences they fully suffer. The first is that the length of time a product remains "state-of-the-art" is shrinking. A product manager at Digital Equipment was one of the few to actually articulate the concern. "It's scary to see how fast things now change in this field. Each [product] generation has too short a lifetime." Meaning: There is not a large enough volume of product over which to spread the cost of developing it.

So we have five major factors that make it more expensive to fund R&D adequately: 1) weak profits; 2) high interest rates; 3) low stock prices; 4) second thoughts about licensing technology as a means of spreading the cost of R&D, and 5) shorter product generations. All this comes at a time when R&D itself is undergoing an important shift. In what way? As long as American managers were concerned above all about selling goods domestically, the emphasis was on consumer goods. Foreign markets were typically approached in a halfhearted manner and were almost always seen as the icing on a domestic success.

The old provincialism is fast disappearing. The Japanese and Germans, targeting the world in peace just as they did in war, have helped the 500 executives in this sample realize once and for all that a narrow focus is deadly in the long run. As one put it, "I used to think that the key battle for world economic supremacy would be fought in the U.S. I was wrong." Victories elsewhere, each one minor, ultimately add up to a major triumph *here*.

As American managements adopt a more global scope for their planning, they will find themselves shifting their priorities: from consumer to producer goods. Accompanying that shift will be a dramatic increase in the cost of R&D. Coming up with a new toothpaste is cheap. Developing a new jet or computer generation is enormously more costly. The era of cheap energy and cheap money is over. So is the era of cheap R&D.

The lesson for investors: Companies with a world scope, ones that have the financial muscle and determination to bring a good idea along until it results in a commercial product, should be given preference in your portfolio. ■

Dr. Srully Blotnick is a research psychologist and author of Getting Rich Your Own Way and Winning: The Psychology of Successful Investing.

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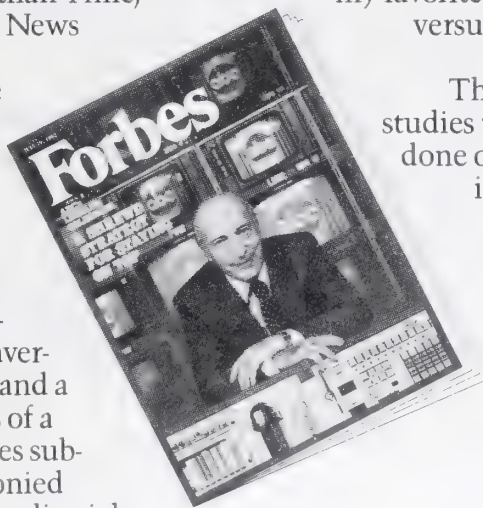
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content. Recently, independent researchers Erdos and Morgan, Inc. did an attitudinal study of the corporate officers in 800 of the largest U.S. companies, comparing Forbes with Fortune and Business Week. Forbes was judged "liveliest," "most enjoyable," "most interesting" and "most provocative." Forbes was felt to be "written with wit and humor"

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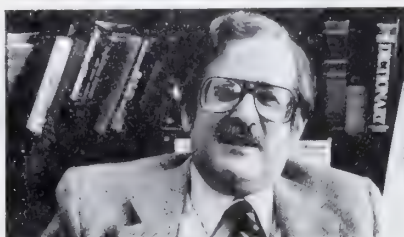
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While three out of four individual traders lose money, nearly all the pros make money—sometimes they make quite a bit.

IT HELPS TO KNOW THE GAME

By Stanley W. Angrist



It has long been accepted wisdom in the commodity business that 80% to 95% of all individual traders lose money. My own examination of the literature on the subject persuades me that the percentage of losers isn't quite that bad—below 80% is my guess. Whatever the exact figures, though, the ratio of net losers to net winners is undoubtedly high—for good reasons.

But professional money managers should do better than individuals because they generally avoid making the mistakes that individual speculators almost always make. That is, they trade adequately capitalized accounts, manage diversified portfolios, have well-tested trading systems, seek long-term appreciation of capital rather than instant gratification—and they shun the quick-buck artists. Logically, then, the pros should do better. According to a new study, indeed they do.

Morton S. and Cynthia L. Baratz at Managed Account Reports set out to test the proposition that the pros can do better than amateurs in managing commodity accounts. Initially, they examined the track records for eight public funds and eight private pools (which, unlike the public funds, are not registered with

the Securities & Exchange Commission) that have track records at least three years long. They examined both groups over a three-year period that ended on Mar. 31, 1982.

All 16 of the limited partnerships examined in the study made money for those investors *who were in at the start and stayed the entire course*. That's a major assumption in the study. However, the range of the rates of return was wide indeed. The largest annual compound rate of return was 89.1%,

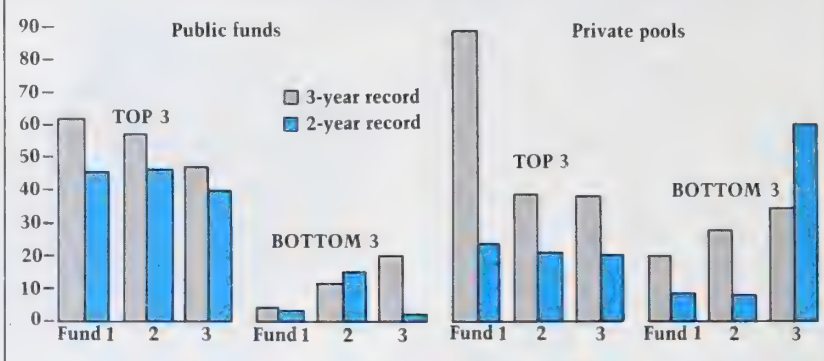
ied, 6 had drops in equity that exceeded 30% in any one episode. Up to a 30% drop is normally considered tolerable in the industry. Three public funds and three private pools shared this dubious honor. The largest drawdown was 56%, and that was a private pool that still achieved a 35% annual compound rate of growth.

The second half of the study examined 24 funds (14 public funds and 10 private pools) that were available for two years from March 1980 through March 1982. It included the same 16 funds in the longer study plus 8 additional funds. The average annual growth rate in this period was 13.2% for the public funds—nearly 60% smaller than it was during the three-year study period. Private pools grew at a 27.9% annual rate, while the average for both types combined was a little over 19%.

Choppy markets took their toll on the pros during the two-year period. Four of the 14 public funds

Knowhow at work

The gray bars show the average annual compound rate of growth for the top and bottom three public funds for a three-year period ended in March 1982. The colored bars show the performance of these same funds over a two-year period ended in March 1982. At right, the same data for private pools. Professionals clearly outperformed most amateurs.



while the lowest was 4.7%; the mean for the group was 36.2%. Over the same time period the Consumer Price Index went up at a 12.8% annual rate, while the GNP price deflator rose at a 10% annual rate. So, on average, investors' funds compounded at a rate 3 times that of inflation.

The average annual rate of return achieved by the public funds was 32%, while the private pools grew at a 40% rate. Of the 16 funds stud-

suffered net losses. Three others showed gains that were less than the rate of inflation. None of the pools suffered net losses, and only two of the ten showed growth rates lower than the inflation rate, and then only marginally so.

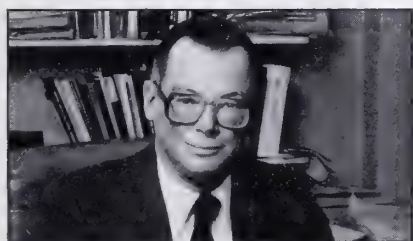
Details of the study and a performance record for the funds through the end of May may be obtained for \$5 from Managed Account Reports, 200 Joseph Square, Columbia, Md. 21044. ■

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets

The real alternatives are deflation, hard times and a gradual return to financial stability, or hyperinflation and chaos.

A 30% INTEREST RATE?

By Ashby Bladen



Most practical businesspeople I talk to now accept my view that the inflation was caused by an excessive rate of debt formation and that it is now in full retreat before an army of deflationary credit problems and crises. The main thing they want to know now is what is going to happen next. I wish I could answer that question simply and unambiguously, but I can't. That's because the chief remaining uncertainty is whether deflation will prove to be politically tolerable.

We can be reasonably certain that whatever happens next will be dramatic. Lenders are progressively becoming doubtful about the creditworthiness of many of their borrowers and are pressing them to sell their real assets for whatever they will bring in order to pay down their financial liabilities. If the forces that make prices in the marketplace are left to their own devices, we are clearly in for a severe bout of deflation and hard times.

We can also be fairly certain that market forces will *not* be left entirely alone to work out their problems. It is the nature of politicians to want to be seen as doing something about any obvious problem, whether or not the ultimate consequence

of their actions makes things better or worse. Among the chief victims of deflation will be new farmers and recent home buyers, and the politicians will obviously try to bail them out by making additional credit available. The fact that the problem was originally caused by an excessive availability of credit is not politically relevant.

Countries like Argentina have avoided internal financial trouble for decades by making available all the credit that the market demands, and at negative real interest rates. As a consequence, the country is exposed both to massive domestic problems and to external bankruptcy any time the British decide that their interests are best served by pushing Argentina over the brink. Politicians in the U.S. are unlikely to go that far, but just how far they will go is anybody's guess at the moment. I do not expect to have a more definite opinion about that at least until the November congressional elections give us some idea of what the American people think about the shambles that this Administration and Congress have already made of national financial policy. Meanwhile, we are in for a period of great uncertainty and probably for nervous, volatile and basically depressed financial markets.

A few weeks ago I was asked to make a projection of the rate of inflation and of interest rates through 1984 as the first step in my company's planning process. The best I could do was to give two alternative scenarios, one incorporating the minimum degree of intervention in the deflationary process that appears to be politically feasible, the other assuming a wholesale attempt to bail everybody out. The ideological bent of the current Administra-

tion causes me to assign a tentative probability of 65% to the minimum intervention scenario, and 35% to the wholesale bailout one.

In the first scenario the slump lasts right through 1983, which shows up as a perfectly rotten year, with agonizingly high real interest rates, falling prices, continuing inventory liquidation and, therefore, high unemployment. But recovery begins in 1984; and by the end of the year Treasury bill yields have gotten down to 5%, ten-year government bonds to 8% and 30-year governments to 7%. The lower yield on long bonds is caused by speculation on a continuing decline of interest rates. In this scenario financial institutions will have a lot of problem loans to work out and will take some severe losses on lower-quality credits, but they will remain fundamentally viable.

Given the doubts about the long-run value of all financial claims that two decades of accelerating inflation have already caused, a political attempt to fend off deflation by making subsidized bailout loans universally available would be extremely likely to turn the doubts into certainties and touch off a run out of financial instruments into equities and tangible things—in other words, hyperinflation.

Both scenarios suggest the financial institutions that have large liquid liabilities should keep their assets as liquid as possible in the short run. However, in the deflation scenario the need for liquidity eventually diminishes, and in the end I would expect the decline in interest rates to produce not only a strong bond market but a strong stock market as well.

The hyperinflationary scenario is considerably more chaotic. Financial institutions remain under pressure, and those that survive do so by drastically changing the nature of their business. The economy grows moderately in 1983, but by late 1984 the inflation rate is at a new peak. Since I assumed that in those circumstances nobody would buy a long-term bond at a negative real return, I came up with a yield on long government bonds of 30%. I know that sounds shocking, but three years ago who would have believed that long U.S. government bonds could possibly yield 14%? ■

Ashby Bladen is senior vice president for investments of the Phoenix Mutual Life Insurance Co. and author of How to Cope with the Developing Financial Crisis.

Situations that present problems for most of us conjure up ideas for the entrepreneur. Meet "Georgi."

ENTREPRENEURS ARE NOT GENIUSES

By Thomas P. Murphy



Which comes first, the entrepreneur or the new business idea? That conundrum may seem as unanswerable as the chicken-and-the-egg question. But not to an entrepreneur. His first decision is to become an entrepreneur. The methodical search for a strong business concept is the next step. The state of mind, in short, precedes the specific idea.

When you think as an entrepreneur, every experience becomes grist for the mill. Products that do not work well, services that do not serve, needs that cannot be filled are the day-to-day annoyances in most lives. But the entrepreneur sees them as opportunities.

Most of us will pick up a product and say: "Look at this thing! I paid \$5 for it and I'm sure it can be made for 50 cents." That's a consumer complaint. Write to Ralph Nader.

To the entrepreneurial mind, however, that same overpriced product sniffs of opportunity. Where is the other \$4.50 going? Something is wrong, and there may be a business opportunity in fixing it.

Looking—opening the mind to opportunity—is a mental attitude. Anyone can do it. Seasoned entrepreneurs become so good at it that they bubble over with ideas. They frequently can't resist giving the next one a try. It is not genius; it is

just a special way of looking at life's experiences. The process is partly random, just being aware of your goal. It is also partly deliberate—looking in places where opportunity is likely to occur.

Where is opportunity going to be?

Some of the greatest successes over the coming decade will be in technology. This does not suggest enrolling in MIT for an advanced degree; the world may not even need another computer maker. But it will need hundreds of new, small companies to harness the astonishing capabilities of computers.

One of the most successful venture capitalists I know started his business with two premises: 1) The computer revolution will continue and accelerate; 2) the best opportunities for new companies will stem from application of the technology to new products and services. Simple? Yes. And obvious. But it has already made him a millionaire.

There are other technologies. Venture capitalists are doing well—i.e., entrepreneurs are doing well—in instrumentation, medical devices and services. Two other major new fields are just starting, robotics and genetic engineering.

Opportunities, as new industries come on stream, go beyond the obvious. There are already 30 companies, I am told, making robots in this country. You don't necessarily have to become number 31. How, for instance, are these many small manufacturers going to install and service machines in facilities scattered all over the country? Who is going to finance them? Who will train technicians for them? Every new growth industry I have seen spawns a whole infrastructure around itself.

Social trends may seem an unlikely source of new business ideas.

In fact, they can present fascinating possibilities. The feminist movement, for instance, brought young women increasingly into sports, and an entrepreneurial lady I know in New Canaan, Conn.—her name is Vicky Papson—decided that teenage girls needed a role model, so she invented "Georgi" (a teenage symbol for various products) and a theme, "She's a Sport." The business is licensing, and two manufacturers are already using the "Georgi" idea in their promotion. Vicky Papson figures that at least a hundred others will be interested.

Bad fits between the users of a service and its suppliers are another place to look for opportunity. The essence of the Century 21 real estate franchise idea was to overcome the mismatch between clients, who usually needed to sell a home in one place and buy in another, and the entirely local character of traditional real estate brokerage.

The limousine industry had a similar problem. Customers, nearly all corporate executives, travel to many places, but the industry is made up of hundreds of local firms. How do you overcome this mismatch? Carey Corp. of Washington, D.C. did it with an 800 telephone number. It books reservations in virtually any city in the Free World. A transportation idea? Not at all. A communications idea.

Transplanting ideas is another approach. If it works in California, it will probably work in New Jersey. Factory outlets, the five-minute oil change, discounting, catalog showrooms, etc., were all ideas freely copied and often improved. Most entrepreneurs are not fussy about where they get their ideas. If an idea can be copied rather than pioneered, so much the better.

Converting bad news to good news is another entrepreneurial device. If foreign competition is killing some domestic industry, the real entrepreneur doesn't waste time writing his congressman; he becomes an importer. If deregulation is creating havoc, as it is now in airlines and trucking, the entrepreneurial mind doesn't dwell on the unfairness of it all; it finds ways to profit from the havoc.

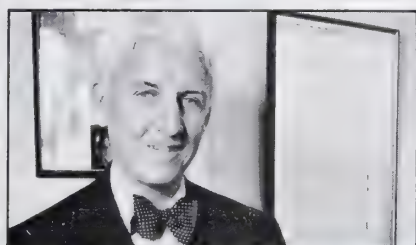
How do people find good new business concepts? It's simple. They look for them. ■

Thomas P. Murphy heads a venture capital firm, Partnership Dankist, Stamford, Conn.

To hell with the cheese; I just want you to get me out of the trap.

A SPECULATOR'S LAMENT

By John Train



One of my friends, a real estate broker, decided to have a flutter in gold futures. The speculator, whom I will call Mr. Wisdom, developed a burning conviction, fanned by a market-letter wizard of the shriller sort, that gold was going through the roof and that he needed to have a big piece of the action.

The problem with futures contracts is that you can be right and still be wiped out. If the market goes against you temporarily, you can be required to put up more margin—eventually, more money than you have—and thus be tapped out, even if in the end you are vindicated.

Mr. Wisdom put \$100,000, about 10% of his fortune of roughly \$1 million, into gold futures, and the market-letter guru was right. Seven weeks later his position was worth \$200,000.

The guru suddenly changed his mind and said there would be a dip. Mr. Wisdom cashed in and stepped to the sidelines.

There was indeed a dip. Mr. Wisdom was in raptures. After the dip had run its course, the wizard sent out an urgent bulletin that the main upward trend was in effect again and commanded his readers to restore their positions. Mr. Wisdom dou-

bled up, adding another \$200,000 to the \$200,000 that he had taken out of the market. Again the swami was right, almost to the day: The market reversed, and by the end of the first week of his new position Mr. Wisdom's stake in gold had grown to \$450,000.

Then something went wrong. Perhaps it was the Russians, selling gold to get Poland current on its interest if they were going to sucker the West into putting up several tens of billions to finance the Siberian gas pipeline. Perhaps it was the latest rise in interest rates. Anyway, gold suddenly headed south with a swoosh! After only a week, Mr. Wisdom's broker telephoned him, saying: "We need \$100,000 of equity. Do you want to send it, or should we make a sale in the account?"

"If I sell now, how much will I have lost?" he asked.

"A hundred thousand," the broker answered brightly.

"What I mean is, how much since I started out?"

"You must be just about even," replied the broker. "Not bad!"

"What should I do now?" asked Mr. Wisdom desperately.

"Well, if you give up on every setback, you'll never win big. Usually, a reaction in the main trend is a chance to make a profitable addition to your position."

"So what should I do?" Mr. Wisdom repeated.

"Well, why don't you put up the margin, and see how it goes after a few days?" the broker replied.

So that's what Mr. Wisdom did. Alas, after a little rally, the decline resumed. In a week Mr. Wisdom had to put up another \$300,000 and soon thereafter another \$200,000. His market-letter guru, like an Argentine general, sent out a series of bulletins calling on his faithful

troops to stand fast at all costs. Mr. Wisdom did what he was told.

Mr. Wisdom was now living in a kind of nightmare. He no longer knew accurately what he had, although he knew that he had lost the results of years and years of hard work. He felt that if he hung on, sooner or later the natural forces of the market would have to reassert themselves and gold would go up, making him a rich man. Of course, if they didn't, he could lose the last of his savings. It made him dizzy. He began losing weight. At this point, in desperation, he came to visit me at home and told me his dismal tale.

"I can't sleep. I'm going crazy," he said. "What should I do?"

I had no problem with that question; the answer is always the same.

"You may be clever enough to make money speculating in gold," I said. "Very few people are, but you may be in that small group. However, you certainly can't do it in your present condition. You're just making wild throws, in a way that could put you in the poorhouse."

"So without doubt," I continued, "you've got to chuck the whole business and give yourself several months to relax."

"You should get out of the market, rest up and go into training, so to speak. You can then start again in a relaxed and alert way, committing only a modest fraction of your assets to the market until you can establish what your skill level is, compared with what you would need to make money consistently. You wouldn't have gotten involved originally, betting huge sums of money you can't afford to lose, if you had felt as confused as you do now."

"So the first thing to do is to close out all your positions. In a few months you may want to go back in, or maybe you won't."

That's about how the dialog has gone each time I have gotten involved with someone in Mr. Wisdom's situation. My advice always has more to do with human psychology than with investment philosophy or with gambling odds. But it's an important principle for every investor to remember: Never go in over your head because, if you do, you will inevitably find your actions ruled by fear and greed rather than by sound judgment. ■

John Train is president of Train, Smith, Investment Counsel, New York, and the author of The Money Masters and Dance of the Money Bees.

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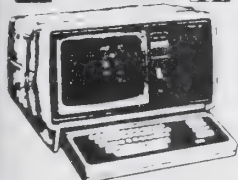
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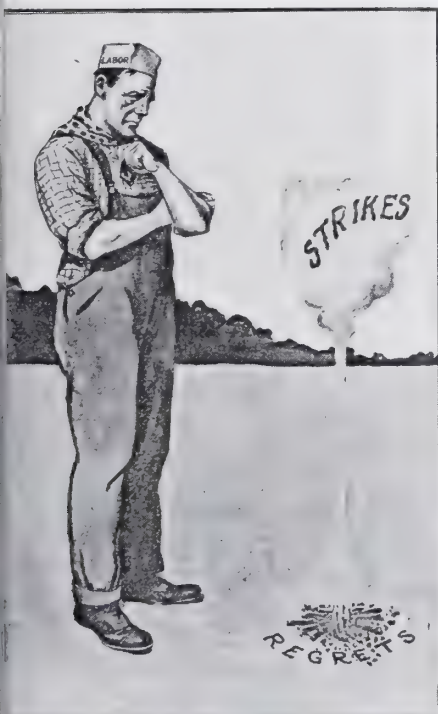
Items from past issues of FORBES

Sixty years ago in FORBES

(From the issue of August 5, 1922)

"President Harding, convinced that no further hope existed for voluntary settlement of the coal strike on the terms he had outlined, ordered immediate resumption of coal production under full protection of every agency of government. . . .

"Chairman Hooper of the Railroad Labor Board has given up all hope of bringing about a settlement of the differences between the men and the railway executives. The only obstacle to an agreement, according to Chairman Hooper, was the question of re-



Strikes, in the view of this 1922 FORBES cartoon, leave only the ashes of regret

storing full seniority rights to the 300,000 shopmen now on strike. . . . This the employers absolutely refuse to do. 'If those who have struck against the decisions of the Labor Board and tried to interrupt transportation are favored in any settlement that may be made, the incentive of men to stay at work in case of future strikes will be destroyed and the difficulty of maintaining transportation service increased,' is the view held by executives."

Both great 1922 strikes—of railway shop crafts and coal miners—ended disastrously for the unions. The shop

crafts had struck when the Railroad Labor Board, set up by Congress in the Transportation Act of 1920 to mediate national rail labor disputes, wiped out a 22% wage hike granted two years before. It did so on the ground that consumer prices had fallen meantime; but it was also true that appointments by President Harding had tilted the Board sharply toward management. The strike was crushed when Attorney General Daugherty got a Chicago federal judge to issue an injunction forbidding *any* action abetting the strike. Thereafter the shop crafts unions were impotent for a decade.

The miners' strike, led by John L. Lewis, also aimed to prevent a wage reduction based on lower prices. After four months, a contract of sorts was signed with about 20% of the northern bituminous mines. But the union's position was so weakened by overproduction from new southern mines and internal strife among the miners that membership declined by some 70% over the rest of the 1920s.

"Fifty years ago the chain store, like Plato's Idea, was suspended somewhere in the hyperion, unknown. Today there are so many chains of so many different sizes and kinds, that the number of them has been estimated from 250 to 5,000, depending largely upon the number of associated stores required to fulfill the definition of a chain."

"The farm population of the U.S. on Jan. 1, 1920, was 31,614,269, or 29.9% of the total population, the Census Bureau reports."

Fifty years ago

(August 1, 1932)

"A sharply drawn issue—whether to cut dividends or to cut the advertising appropriation—came before the directors of the Colgate-Palmolive-Peet Company in July; and dividends lost. Common stockholders were told that dividends will be lower until business uncertainties clear up because the only alternative would be to cut the advertising program; and such action, ultimately, might mean no dividends and valueless stock."

"The German elections, scheduled to take place on Sunday, July 31, have promised for some time to be much more serious and much more critical than those held earlier in the year. With Socialist-Communist bloodshed

as at least a pretext, Chancellor von Papen has suddenly removed the highest officials of the state of Prussia, mostly Socialists and enemies of the Nazi party, and established a virtual Prussian military dictatorship, with himself as premier. The coup has been interpreted with various political aims in view, but the fact remains that it is the boldest stroke back toward military monarchy that Germany has seen in many a day."

Twenty-five years ago

(August 1, 1957)

"Five months ago, when the market was some 10% lower and close to its 1957 lows, your editor took note of growing nervousness among businessmen and asked whether the boom really was running out. Our conclusion was that it was still going strong. Many of the apparent signs of weakness, we felt, were simply a result of Washington's praiseworthy efforts to keep the boom from getting out of hand."

—Malcolm S. Forbes

"At exactly 10:30 a.m. one day last month, plant manager Samuel L. Simmons took the driver's seat in a gleaming hardtop that had come to the end of the assembly line in Ford Motor Co.'s Mahwah, N.J. factory. In a matter-of-fact way, Simmons set the engine humming and drove away, thus marking a very important milestone in the Ford company's proud but chequered history. For the car was Ford's first production Edsel, end product of market studies begun nine years before, the auto that President Henry Ford II has described as the key to his company's future growth."

"Conscientious city managers across the U.S. have for months been marked with a characteristic look: brows as wrinkled as prunes, and empty convulsively clutching hands. The cause: tight money and its concomitant, fast-rising interest rates. With yields on municipal bond offerings soaring to an average 3.43%, the highest in 22 years, municipal managers have had no choice but to forego such needed public improvements as schools, streets and sewers. Though it was little consolation, U.S. municipal borrowers were actually well off. . . . Last month in Germany, where money is really tight, the bustling port city of Hamburg . . . upped its interest rate to 7% to attract borrowers."

Hold yourself responsible
for a higher standard than
anybody else expects of you.
HENRY WARD BEECHER

Common sense is genius dressed
in its working clothes.
RALPH WALDO EMERSON

When a man is in earnest,
and knows what he is about,
his work is half done.
COMTE DE MIRABEAU

Either I will find a way
or I will make one.
PHILIP SIDNEY

Success is not searching
for you. You must do
the seeking.
FRANK TYGER

A Text . . .

Know thou the God of thy
father, and serve him with
a perfect heart and with a
willing mind: for the Lord
searcheth all hearts, and
understandeth all the
imaginings of the
thoughts.

I CHRONICLES 28:9

Sent in by Clyde D. Boden, Arlington, Va.
What's your favorite text? The Forbes Scrap-
book of Thoughts on the Business of Life is
presented to senders of texts used.

If you wish success in your
life, make perseverance your
bosom friend, experience
your wise counsellor, caution
your elder brother, and hope
your guardian genius.
JOSEPH ADDISON

Little drops of water
wear down big stones.
RUSSIAN PROVERB

Thoughts on the Business of Life

*Adhere to a definite,
clear-cut purpose in
life, and push forward
painstakingly, perseveringly
and conscientiously to
its realization*
B.C. FORBES

Our main business is not
to see what lies dimly at
a distance, but to do what
lies clearly at hand.
THOMAS CARLYLE

Defeat ceases when
the ghost stops dancing.
DEENA METZGER

What great thing would
you attempt if you knew
you could not fail?
ROBERT SCHULLER

Fate laughs at probabilities.
EDWARD BULWER-LYTTON

Touch a thistle timidly, and
it pricks you; grasp it
boldly, and its spines crumble.
WILLIAM S. HALSEY

Human society is ordered,
productive and in accord
with human dignity only
if it is based on truth.
POPE JOHN XXIII

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author and subject, are available in a 574-
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York State orders.*

Destiny is not a matter
of chance, it is a matter
of choice; it is not a
thing to be waited for, it
is a thing to be achieved.
WILLIAM JENNINGS BRYAN

Behind many acts that are
thought ridiculous there lie
wise and weighty motives.
LA ROCHEFOUCAULD

When a man has not a good
reason for doing a thing,
he has one good reason
for letting it alone.
WALTER SCOTT

There is nothing more
irrational than a man who
is rationally irrational.
LECOMTE DU NOÛY

It is always well to moor
your ship with two anchors.
PUBLILIUS SYRUS

Creativity is the act of
bringing something new
into the world, whether
a symphony, a novel, a
supermarket or a new
casserole. It is based
first on communication
with oneself, then testing
that communication with
experience and reality.
S.I. HAYAKAWA

Work is not of course,
any more than play, the
object of life; both are
means to the same end.
JOHN LUBBOCK

The conduct of man depends
upon temperament, not upon
a bunch of maxims.
BENJAMIN DISRAELI

All things are difficult
before they are easy.
THOMAS FULLER

FORBES
August 16, 1982

DOLLARS AND FIFTY CENTS

Forbes

**SOUTHERN PACIFIC'S
KEN BIAGGINI
FAST TRACK
TO TROUBLE**

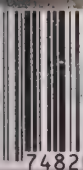


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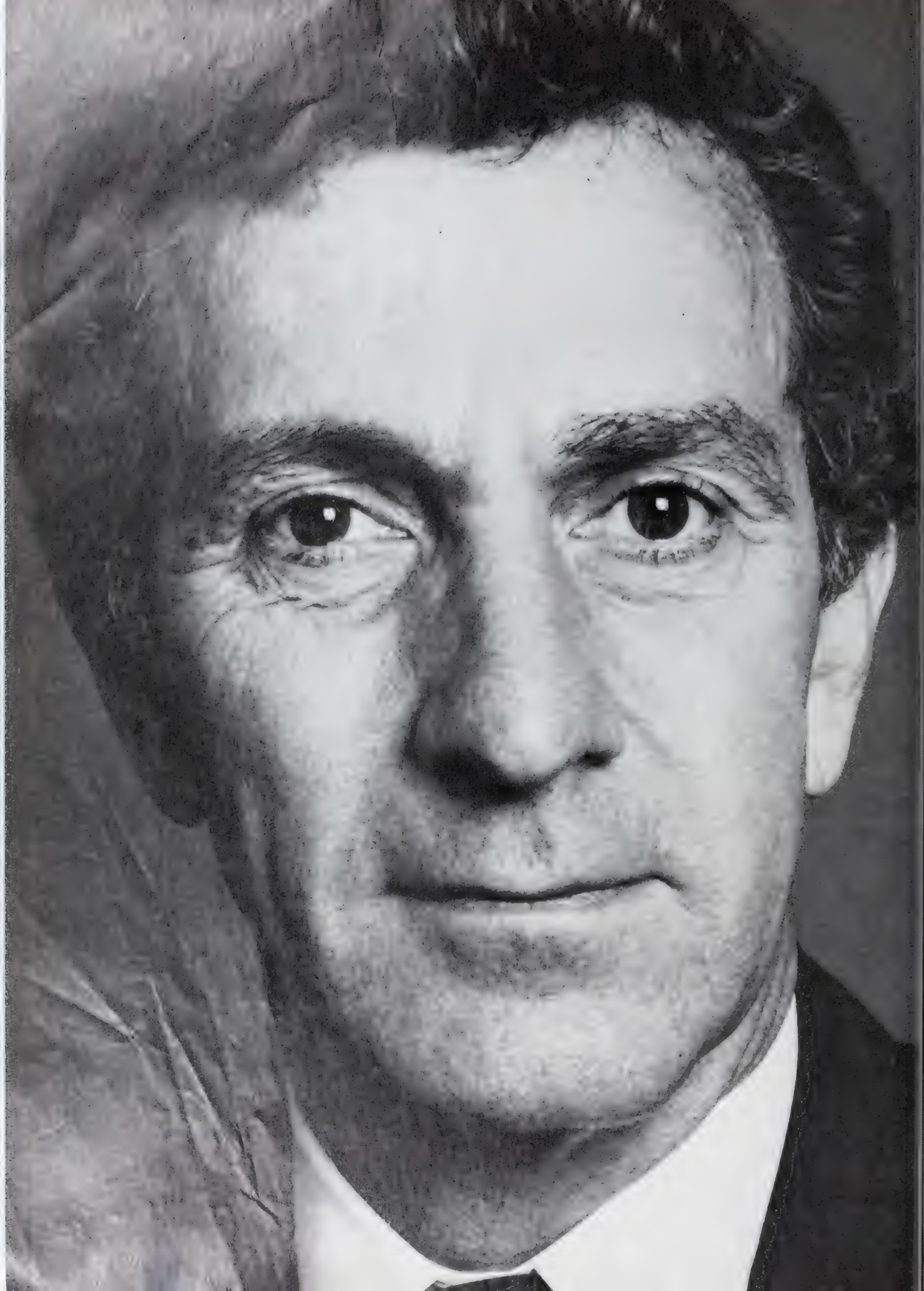
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Robert A. Contino, President
Exxon Office Systems

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Your confidence is key. That's why we are dedicated to providing quality products and the service and support to make sure this confidence thrives.

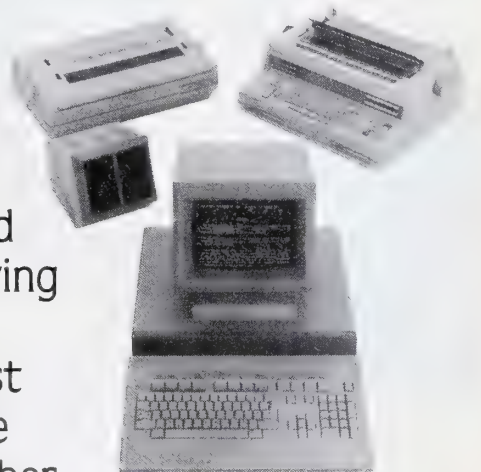
But winning confidence is only part of our mission. To assure both your future and ours, we have committed a substantial portion of our resources to researching and developing the kinds of products you will need to grow, and prosper... for the long term.

In addition, we have hammered out bold product strategies that are matched to the growing demands of the marketplace.

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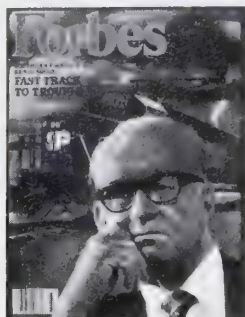


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August 16, 1982
Volume 130,
Number 4



57 Cover Story: Southern Pacific, for all its might, is highballing toward serious trouble



32 Commodities: Trading volume remains high, but traders' morale is low



62 Time-sharing: There's a limit to how much folks will invest for a place in the sun, especially those with sharp pencils.

31 Wall Street:

Look Who's Back In Town

Merrill Lynch and E.F. Hutton together account for some 25% of the trading done by individuals, and both report clear signs that small investors' interest in stocks is quickening. It's good for the market, of course, and even better for the brokerage firms.

32 Commodities:

Running Scared

A seat on the new New York Futures Exchange costs just \$17,500—one sign of the gloom now spreading over there.

33 The Thrifts:

It Only Looks Like A Bailout

A little-known federal effort is pumping some \$50 billion of liquidity a year into beleaguered thrift institutions. It isn't a bailout, just some innovative bookkeeping, but no less welcome for all that.

34 Mortgages:

This Way To The Poorhouse

Reverse annuity mortgages are a rotten idea, so why is Uncle Sam pushing them?

35 Soviet Union:

After Brezhnev . . .

The premier of the U.S.S.R. is 75 and ailing. The average age of his Politburo colleagues is 70. A Georgetown University study group has some thoughts on possible new directions there when the old order changes.

36 Taxes:

False Alarm

The Senate's big tax bill, with its bad news for drug companies and others with shelters in Puerto Rico, won't survive intact.

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Balancing Acts

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37 Companies:

Cincinnati Milacron, Inc.

"This is unlike any recession I've seen," says the nation's largest machine tool maker. "We're swamped with inquiries."

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Wal-Mart Stores, Inc.

In 20 years Sam Walton has converted a competitive threat into a personal fortune of some \$750 million. Here's how he did it.

46 Companies:

Wheelabrator-Frye Inc.

In playing the white knight and taking over Pullman, Wheelabrator's Mike Dingman has scored a coup. After all his ax wielding, the big prize—Pullman's engineering companies—cost him less than nothing.

48 Companies:

Central Jersey Industries, Inc.

Murray Salzberg has made a career out of finding deals with almost no downside risk but with lots of upside potential. Consider the careful waiting game he is playing with cash-rich CJI.

49 Profiles:

Roger Hardesty

Architectural gems are not his monument. No-frills construction efficiency is, and Hardesty has the fortune to prove it.

50 Companies:

Royal Crown Cos., Inc.

No soft drink company can outthink RC. But a few can outspend it, and therein lies one of the reasons RC is losing market share. The company's move into fast foods (Arby's) isn't helping much.

52 Companies:

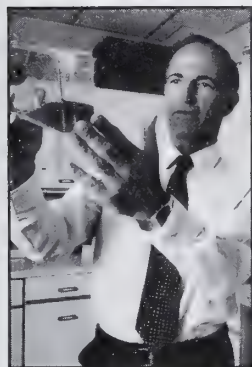
Dr Pepper Co.

"Let Coke and Pepsi go at each other," says DP President Chuck Jarvie. He'll concentrate on the noncola crowd. Hence his Canada Dry acquisition.

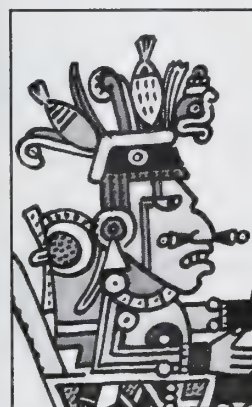
57 Cover Story:

On A Fast Track To Trouble

Southern Pacific has vast assets and a strong foothold in a great growth industry. But neither strength may save it. The SP needs capital—and the money may not be there.



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How the mighty have fallen

Most people used to think—and some still do—that big business, unlike little business, doesn't have to pay for its mistakes. Sheer heft would always save the day. But then Penn Central went under, and Chrysler almost did, and International Harvester went to the brink. You hear names whispered as potential insolvents these days that a few years back were mentioned only as prime credit risks. The point is: When our competitive economy gets hit as it is today with waves of technological and economic change, nobody is safe, not even the most powerful. You can scarcely get bigger and richer than San Francisco-based Southern Pacific Co., but scant good that may do it. Executive Editor James Cook analyzes SP's deteriorating economics and pinpoints a major management blunder that could turn the once-mighty SP into a corporate basket case. "Doomed?" begins on page 57.

When brass turns to ham

There's ham actor in all of us—witness the unseemly haste with which otherwise sensible people jump at the chance to be made ridiculous, exploited or otherwise abused on the TV screen. Given this human vanity, is it surprising that so many chief executives graciously agree to be featured in TV or print advertisements as spokesmen for their companies? Or that advertising agencies suggest it? It's not surprising, but is it good policy? Reporter-Researcher Kevin McManus surveys the trend in Personal Affairs. His conclusion: On Lee Iacocca it looks good. Begins on page 78.

Is that a smile?

If you think Columnist Ashby Bladen is a congenital gloom-and-doomer, better take a careful look this time. The title of his new column tells all: "A glimmer of hope." But hope for the economy could be bad news for the defense industry. On page 100.

Union digs while Mobil talks

It's good that Mobil Oil is proposing a petroleum industry consortium to develop the nation's shale oil resources. Makes you wonder, though. While the rest of the industry has been on-again, off-again about shale, doughty Union Oil of California is only a year away from actually squeezing a lot of oil out of those Colorado rocks. Union puts the capital price tag on its shale project at \$570 million. That sounds like big money for 10,000 barrels of oil a day until you realize it's only about half what Mobil spent to get into the retailing business or Exxon spent to buy a company that makes electric motors. I recently visited the Union project in the beautiful Parachute Creek region in Colorado and found it breathtaking in its scope and yet completely hardheaded in its execution. If the project works well, Union will be able to expand relatively cheaply while its rivals may still be in the talking stage. And here's the last laugh: In the long run, Union's daring will probably do more for stockholders—to say nothing of the nation—than other oil companies' financial adventuring.

James W. Michaels
Editor



Now you can shrink a \$600 car repair down to \$25.

Everywhere you look these days, it's \$600 for a transmission job here, \$400 for engine repairs there.

It's gotten to the point where even the remote possibility of major repairs is enough to worry anyone.

Until now.

Because now you can cut those worries down to a more manageable \$25. And keep them that way for up to five full years.

Introducing the Ford Extended Service Plan—for purchasers of Ford or Lincoln-Mercury cars or light trucks.

Here's how it protects you.

The Extended Service Plan covers thousands of parts, including major repairs. And promises no parts or labor

charges, except a small \$25 deductible each time you bring your car in. No matter how many different covered parts need to be fixed.

Which means you can go to any one of 6,500 Ford or Lincoln-Mercury Dealers across the U.S. and Canada, and the most you'll pay is \$25 for any covered repairs.

Plus there's much more. With plans ranging up to 5 years/50,000 miles of maximum protection. See your Dealer for all the details on how to shrink car repair worries down to size.

Ask for the Extended Service Plan by name. It's the only one backed by the Ford Motor Company.

Get it together—buckle up.

Ford Extended Service Plan

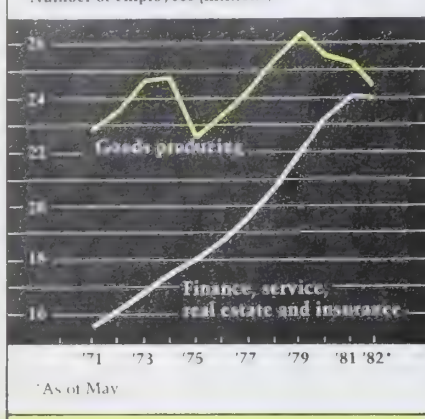


The faded blue collar

With the U.S. production machine continuing to slow—American factories were ticking over at only 70% of capacity as summer began—why isn't the recession much deeper? Part of the explanation is the radical shift in the way Americans earn their money. This spring, for instance, for the first time ever, the number employed in service industries topped the total working in factories, construction

Where we work

Number of employees (millions)



and mines. Part of the reason, of course, was the drop in production and the consequent rise in manufacturing unemployment. But the fact is that growth in service employment—business services, finance, law, engineering, accounting, health care and other white-collar areas—has been spectacular during the last decade, while jobs in manufacturing have stayed flat in a growing work force.

Auditing the S&Ls

Accounting firms have been tightening up the way they audit the hard-hit savings and loan industry. Arthur Andersen, for example, recently gave its staff new S&L guidelines focusing on such items as operating losses, net worth requirements and regulatory mandates. "It's something we apply in our daily work," says David Landsittel of the CPA firm, emphasizing that Andersen isn't picking on S&Ls. "They're not being made into scapegoats," he says. "They've just fallen on hard economic times." Peat, Marwick, Mitchell, number one in S&L clients, did this in December 1980, setting up three levels of scrutiny based on the severity of an institution's financial situation. If an S&L

can show PMM it can get by for the next 15 to 18 months without any loss, it gets an "emphasis paragraph" and a clean "ticket," or audit certificate. If, at the other extreme, an S&L has a "probable cash flow problem," PMM gives it a disclaimer of opinion. Partner Walter Erikson cautions that the latter does not mean a thrift is foundering. "It simply means there's an uncertainty about the outcome." And what if the auditor thinks the client is going under? "I haven't had that yet," Erikson says.

Dump now, pay never

How effective are those antidumping laws designed to stop foreign manufacturers from shipping products into the U.S. at cutthroat prices? American steelmakers, protesting what they charge are below-cost imports of European metal, have brought Washington and Europe's Common Market to the brink of economic war, and anti-import feelings in Congress are at fever heat. The antidumping laws themselves, however, can be paper tigers, even when enforced. For example, in 1971 the U.S. decided that Japan and some of its American customers (like Sears, Penney and Montgomery Ward) had dumped TV sets in the U.S. By 1977 there was talk that the offenders should pay \$400 million to \$600 million in duties and fines. The Commerce Department, however, decided the bite should be \$138 million and then cut a deal in 1980 with 22 sinners for \$66 million. Payments so far? Zero. The American TV manufacturers who wanted redress challenged the 50-cents-on-the-dollar settlement and the issue has been floating around in places like the Court of International Trade (formerly the U.S. Customs Court) ever since.

Hail to the chief

The celebrity endorsement is as old as advertising, but Britain's Albany Life Insurance Co., Ltd. may have broken new ground with a newspaper ad headlined "Will you be as successful finding a second career?" and illustrated by an old movie still of Ronald Reagan in full Western fig. The White House, of course, was not consulted, but Albany Life Managing Director Ralph Sepel sees nothing untoward. "We indicate the President has had a very successful second career," he says. But suppose a U.S. insurer had adorned a burglary-coverage ad with, say, a shot

Edited by John A. Conway

of Queen Elizabeth trapped in her bedroom by an intruder? "Not the same thing," Sepel says. "The correct comparison is with Margaret Thatcher, and there would be no sensitivity here if she were used in American advertisements." Albany Life is U.S.-owned, by American General in Houston, and there Vice President James Moore washes his hands of the matter: "We don't run the company; we just own it. Everyone there is English, and

Will you be as fortunate finding a second career?

Have you ever thought about a second career? If you have, you may be interested in the many opportunities available to you through Albany Life. We are looking for individuals who are successful in their first career and want to find a second career that will provide them with a steady income and a secure future. Albany Life offers a variety of investment opportunities that can help you achieve your financial goals. Whether you are a professional, a business owner, or a retiree, we have a plan for you. Contact us today to learn more about the many ways you can benefit from Albany Life.

Albany Life

London insurance advertisement
Well, he is a celebrity.

they see things in a different light." The Reagan ad did prove something: The President is still box office. His ad, one of four by Albany Life (and the only one with any political angle), has proved the biggest draw, generating 40% of the total response to date.

No-strike strike fund

Logically, with auto manufacturers in such terrible shape, the auto union should be as badly bent as its employers. That is not the case, however. The United Auto Workers has built its strike fund to a massive \$446 million—and the union hasn't been striking. The last major walkout against an automaker was the 28-day Ford strike in 1976, and its biggest in any area recently was the 6-month battle with International Harvester in 1979-80.

Madison Avenue minuet

Newsman Bill Moyers stirred up a furor with a CBS-TV documentary this spring reporting on how the Reagan budget cuts were affecting Americans, particularly poor Americans,

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We think a big reason A&A has become one of the largest and most trusted insurance brokers worldwide is that we work the same way with every client. From the client's point of view. From Brazil to Britain to Bahrain.



Production workers at Bendix do Brasil in Campinas, Brazil

**Alexander
& Alexander**

From the client's point of view.

Trends

and the White House cried foul. Holiday Inns, one of the show's sponsors, went further and announced that it would not pay for a commercial it had placed on the broadcast. The hotel chain's communications vice president Bill Goforth said the company had a "longstanding policy" of sponsoring only balanced broadcasts. Moyers' show was not balanced, in Holiday Inns' view, so no money for CBS. CBS was unruffled; it had been paid, it said, and so had no problem. Not so with Young & Rubicam, the chain's ad agency. Holiday Inns was directing its anger at CBS, but its admen were taking the financial heat. As is routine, Y&R had paid CBS for the commercial and billed its client, but had no check in return. Goforth thinks it will be a lesson to all advertisers and agencies to be more wary when screening programs in the future. (Would Holiday Inns have objected if the Moyers show had shown a pro-Administration bias? Of course, says Goforth.) Meanwhile, Y&R says cautiously, "The whole matter is being discussed and negotiated." But all admen know the refrain Madison Avenue dances to: "The client is never wrong."

The battle of the bowl

The Pentagon has tossed a salad bowl of trouble at lettuce farmers in Michigan, New York and New Jersey. After 20 years the brass has decided to buy its lettuce from selected European farmers, saying it will mean cheaper, fresher salads in the mess hall. Fresher lettuce has been an emotional issue among GIs in Europe, the Pentagon says, and the switch, explains Deputy Defense Secretary Henry Catto, will improve morale. It will also save money. "Cost is a factor," Catto says. "We estimate the cost saving at \$600,000 a year." The farmers are understandably furious, claiming they are stuck with millions of dollars' worth of now-unwanted lettuce in their fields. Representative William J. Hughes (D-N.J.) says truck farmers in his area alone will have to destroy about \$1 million worth. Catto's answer is that the Pentagon had not agreed in advance to buy American lettuce, and an aide to Hughes concedes that farmers were told two years ago that the military might go abroad. Hughes himself is threatening to attach a "Buy American" clause to Pentagon spending bills.

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Follow-Through

Meet me at the fair

Five months before Ronald Reagan flew in to cut the ribbon and open the Knoxville world's fair in May, a *FORBES* preview (Jan. 4) reported that it was "the stuff of which flops are made," though it did concede that the Tennessee city might still come out ahead. Now halfway through its six-month run, the fair looks like anything but a flop. It clocked its 5 millionth visitor in mid-July, 1 million ahead of schedule for its projected 11 million goal, and the city fathers have rejuvenated 72 acres of downtown Knoxville with other people's money.

S.H.(Bo) Roberts, the former University of Tennessee official who is president of the fair, bubbles with effervescent numbers. Those 5 million visitors, he notes, were originally expected to drop \$7 apiece on the Knoxville midway for rides, souvenirs and food (which are not included in the all-purpose \$9.95 adult admission charge). Instead, the average has been \$10 a head. In addition, the projections for total fair-related spending in the whole Knoxville region will run between \$500 million and \$1 billion, Roberts thinks. That could be an impresario's hype, but the businessmen of Knoxville and the Tennessee tax collectors

in Nashville are just as euphoric.

During the three years it took to build the fairgrounds, says Frank Deller, executive vice president of the Knoxville Chamber of Commerce, the area "has consistently been several percentage points below the state average in unemployment, currently 10% statewide and 8% in Knoxville. This is certainly because of the fair." Bill Sansom, Tennessee's finance commissioner, is also rejoicing. The fair generated at least \$2.5 million in sales taxes from lodgings and restaurant sales in its first month, Sansom says, and he predicts that the \$11.3 million projected for the sales tax windfall for the whole six months "will be easily reached." In fact, Sansom thinks, because the sales tax is Tennessee's principal source of revenue, the state will be helped considerably toward balancing its budget this year because of added receipts generated by the fair.

The 43 banks that ponied up \$30 million in loans to construct and run the Knoxville show should also be content. Roberts expects to beat another timetable and pay off all that debt next month. Helping out there is the number of exhibitors the fair was able to attract to the buildings it erected to rent for up to \$600,000. Roberts had expected 40 corporations and trade associations and got 92; the original hope of 20 foreign countries as exhibitors was also fulfilled, with a total of 27.

Besides spending more money at the fair, the visitors who came to stand in line to savor delights like Communist China's solar-powered dragon boat and Peru's \$40 million collection of Inca gold relics also outran the projections of the distances they would travel to get to the festivities. More than half of them, Roberts says, came from more than 400 miles from Knoxville, far beyond expectations. (The 400-mile benchmark is the estimate for a day's driving.) The travelers extended their range, Roberts thinks, because of the availability of buses and gasoline, which were of more concern to them in the planning stage than the price of fuel.

Drivers, in fact, will be enjoying one fair-related boon for years to come. Before the extravaganza was built, three broad-gauge federal interstate highways funneled into Knoxville to meet in one-lane interchanges, a mind-boggling mess that truckers had christened "Malfunction Junction." Washington rode to the



Bo Roberts of the Knoxville fair
High finance on the midway.

rescue with a \$225 million highway-improvement program that turned the junction into a safe-and-sane interchange.

Add to that the \$21 million U.S. pavilion, the \$5 million "Sunsphere" that is the fair's towering landmark (both of which remain as permanent fixtures), a 6.5-acre park with a 3-acre lake, an amphitheater paid for by the state, a convention hall and a new shopping center and restaurant, and the good burghers of the country's 75th-largest city should be well pleased with their fair.

The unsung hero

James Schlatter's monument in the chemistry hall of fame is a low-calorie sweetener called NutraSweet, which could mean \$1 billion in sales for his employer, G.D. Searle, by 1985. A year ago *FORBES* (Aug. 17, 1981) reported how Schlatter had discovered the sweetening properties of aspartame, a combination of two amino acids, while working on an anti-ulcer drug in Searle's Skokie, Ill. laboratories. He spilled some, licked his fingers, and m-m-m.

Searle has plans to produce 2 million pounds of aspartame a year. It is currently manufactured in Japan, and an American plant should come on stream later this year. Searle is marketing aspartame as a table-top sweetener (brand name Equal) and to customers like Lipton (for an iced tea mix) and Quaker Oats (for a cereal called Halfsies).

The next jackpot for Schlatter's accidental discovery could come when Searle gets a chance to sell NutraSweet to the big diet soft drink makers. The problem there is that the U.S. Food & Drug Administration must approve any new use of aspartame and, explains Searle's Richard McGraw, "that could take months or it could run on for years." (The FDA took eight years to approve NutraSweet for the products Searle is now selling.) One big problem for Searle and aspartame is cost. The product is about 200 times sweeter than sugar, but it costs \$90 a pound. Saccharin, the main nonsugar sweetener, is 300 times sweeter than sugar and costs just \$4 a pound.

Schlatter, meanwhile, is still rattling test tubes in the Searle lab and is "very pleased" that his brainchild is on the grocery shelves. In his case, gratification is its own reward. His original finger-licking did bring a "special incentive award," he says, but "it's not a big thing."

In London

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Readers Say

Who needs one?

SIR: I was hoping you would answer the question of why to buy a home computer in your Aug. 2 cover story, "Bringing home the computer." You give no justification for spending \$1,000 to \$5,000 on one. The home computer is a solution without a problem. Let's search for the problem because I would love to own one.

—Kenneth R. Leebow
Marietta, Ga.

SIR: You omitted "making music" as a category of computer applications. I'm sure your readers would be interested to know that their home computer can be transformed into a musical instrument which can be played without the prerequisite 15 years of practicing scales.

—Nancy A. Norman
Evanston, Ill.

Taste comes first

SIR: Your July 19 issue asked the question, "What price independence?" and accuses Coors of remaining aloof. Not so. We do prize independence, and we do want to survive. There is no way that we could make the purest beer in America in somebody else's brewery. We used to pasteurize our beer, but knowing that heat, time and light are enemies of beer, we found a better way several years ago, keeping taste for our customers still uppermost in our minds.

—W.K. Coors
Chairman,
Adolph Coors Co.
Golden, Colo.

Is the GOP listening?

SIR: Republican as I am, I might switch parties if the Democrats pass a flat-rate tax bill ("Will Democrats Outflank The GOP On Taxes?" *Fact and Comment*, July 5).

—Carleton B. Waldrop
Spokane, Wash.

Happy exception

SIR: Joe Ruffolo, newly installed chairman of the American Movers, was speaking for the industry ("No moves is bad news," *June 7*), not North American Van Lines specifically. For North American Van Lines, 1981 was

the year in which we exceeded \$500 million in total revenues, up from \$255 million just five years ago.

—K.W. Maxfield
President,
North American Van Lines
Ft. Wayne, Ind.

Convolved but legal

SIR: The banknote world is taciturn, convolved and even dangerous, but there is no need for FORBES ("Latent image," *June 21*) to make it illegal as well. U.S. banknote firms have been printing foreign currencies and postage stamps for over 100 years. Legally. I assume that the line about International Banknote printing money for some 70 companies (rather than countries) was just a curious typo.

—Murray Teigh Bloom
Great Neck, N.Y.

Mr. Bloom, author of the forthcoming book *The Brotherhood of Money*, is correct.—ED.

After that, taxes

SIR: Re your review of the book *Conquest of Death* (July 19), let's rejoice that someone is working on it. If we don't do something about the problem of death, we are all on a one-way trip to nowhere.

—Forrest S. Walters
Erie, Penna.

No plans to close

SIR: In the "Face" (July 19) on Cyclops President W.H. Knoell, you state that: "National Steel has closed its big Weirton, W.Va. steelworks." Weirton is operating today and we intend to keep it operating as long as there are sufficient orders to be filled. We have no plans to close Weirton. What we have done is suggest that the management of Weirton and its employees consider buying the plant and operate it under an ESOP.

—Edward J. Klein
Director, Communications,
National Steel Corp.
Pittsburgh, Penna.

Costly juries

SIR: You say, in *Fact and Comment* (July 19), that "... trial by jury is the

greatest single insurance for preserving our system of justice." To the contrary, it is ruining our system of justice. In civil litigation, ridiculously high damages are awarded to plaintiffs. Unsophisticated jurors are gulled by multimillionaire, virtuoso lawyers. Result: higher insurance premiums for the rest of us.

—Robert W. Wilson
New York, N.Y.

SIR: Perhaps you choose to ignore the remarks of several of the jurors that they voted the way they did in the Hinckley trial just to get it over with. God only knows how many miscarriages of justice have been perpetrated for this reason.

—William F. Schaefer
Baltimore, Md.

We're credible

SIR: You assert ("Back space," July 19) that "SCM has had a credibility problem since the 1960s..." SCM has long had a thoroughgoing financial relations program based on full accessibility to any responsible security analyst or investor and [top management] meets with scores of them each year. We have earned a reputation of answering any responsible question fully and completely.

—Gerard F. Stoddard
Vice President,
Corporate Communications,
SCM Corp.
New York, N.Y.

Diesel's still better

SIR: In spite of rising diesel fuel prices ("Brakes for diesels," Trends, July 19), the cost of a diesel engine is still a good deal: no tune-ups, no cleaning of the carburetor and no engine failure during heavy rains.

—William E. Keppler
Kenilworth, N.J.

OFEC?

SIR: In the long run American florists may find it unwise to allow domestic growers to be forced out of business ("The war of the roses," July 5). If domestic production stops, the market price will be whatever the foreign growers want to make it.

—William S. Farrington
Director, Horticulture Department,
American Farm Bureau Federation
Park Ridge, Ill

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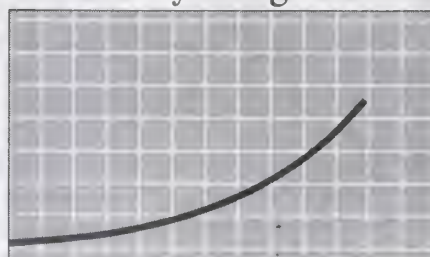
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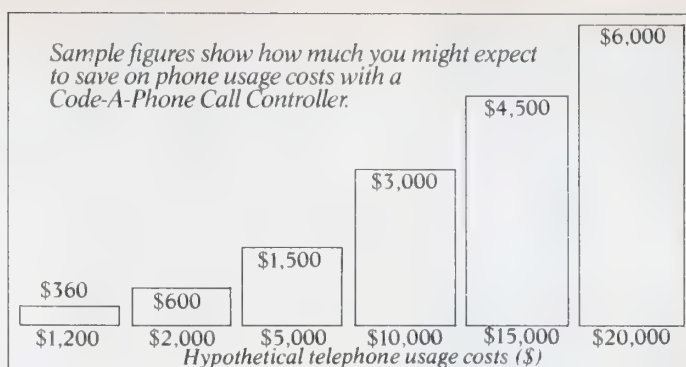
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ACCOUNT	CALLS	MINS	ACCOUNT	CALLS	MINS				
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123	23	65	789	12	40				
222	45	345	890	46	473				
234	76	348	908	85	246				
324	45	96	1111*	13	312				
325	35	198	3223*	15	425				
326	86	357	4324	86	769				
333	12	45	5432	75	456				
345	34	86	7777	32	358				
444	57	258	23456	54	357				
456	68	453	34212	58	245				
555	15	123	45678	35	159				
567	41	159	56787	24	176				
666	58	251	76544	16	143				

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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

INTEREST RATES HEADED DOWN

to 14% by year's end is my prognosis. Savvy son Steve (Malcolm Jr.) thinks they'll be down to 12%.

NOT IN THE LIFETIME OF SOME OF US, BUT CANADA'S

most vital export to the U.S. will one day be water—not oil, not natural gas, not minerals and metals, not newsprint. One of our more foresightful major oilmen bluntly told me three years ago:

"While today we are in an energy crisis, it's *water* that will be Canada's most vital export some years from now. Both the U.S. and Mexico will be dependent on Canada for two-thirds of their water supply—a commodity far more vital to life than any other" (FORBES, Aug. 20, 1979).

New farming techniques, galloping industrial use, population surge and Sunbelt growth have sharply accelerated the rate at which our underground water tables have been declining—which they have been doing for generations.

While the world has no less water than it ever did, where it's lifted and where it drops has changed. Misuse, overuse and pollution have combined with growing usage to create

our problem. Recycling with modern chemicals helps. Awareness that stems from increasingly frequent and dramatic water shortages in the East and West as well as our breadbasket states and the Sunbelt is resulting in conservation, which—as with energy—provides the most instant solution. With the knowledge that 45% of household water is used to flush johns and 30% for baths and showers, we've learned of necessity that a whopping amount can be saved.

But there's water enough for people needs. The real crisis will come when drought devastates U.S. food states.

As water expert John Opie told FORBES: "Desalination is not economically feasible and there is no such thing as artificial water. There is no synwater to bail us out."

In the lifetime of younger readers, our present pipelines, and future ones, will be carrying more water than oil and natural gas.

SILVER LINING FOR MIDWEST'S DARK CLOUDS

America's industrial heartland has long been on the worst toboggan slide since the Depression. Gloomdoom has grown with every passing month. But at lunch the other day we learned something that indicates things should start going better for the Midwest's makers of things.

John Young, Hewlett-Packard's toughly able chief, told us that for a year and a half now its



orders from these deeply depressed states have been continuously up. Hewlett-Packard produces a gamut of devices that makes multiple manufacturing operations far more efficient. Its Midwest customers now see survival depends on using the most sophisticated new means to cut costs. Thus back to such basics, this depressed manufacturing breadbasket will cease declining, start climbing.

MIT TO TURN OUT LITERATE ENGINEERS?

We, fortunately, have outstanding engineering schools, and among the topmost is Massachusetts Institute of Technology. A trustee of MIT told us the other day that, for the first time, freshmen are going to be required to take a course in writing.

Apparently they've decided to mitigate an observation

that in Boston is an accepted truth: If you're from Harvard, you can't count; if from MIT, you can't read.

Next thing we know the Crimson may require that their freshmen be able to do sums. If Harvard as a traditional major source of D.C. coddled eggheads dries up, where will we find those makers of policies that never add up?

I SAY, HEAR! HEAR! FOR BRIT WIT

First there was *That Was The Week That Was*, then *Monty Python*, and now there's *Not The Nine O'Clock News*. The latest in that line consists almost always of devastating takeoffs about things topical.

One skit involved two priests, one of whom can't remember the name of the man last Sunday's sermon was about—"You know, the fellow that walks on water."

Then there was the scene with the suggestion concern-

ing an evil chap: "Somebody ought to write him a letter bomb." Another sketch showed that indestructible breed, English animal lovers, returning roast ducks to the pond from which they had come, releasing sardines back into the stream, etc.

Of course, they don't always make it along that very fine line between humor sick and humor superb. But, by Jove, they are seldom caught batting on a sticky wicket.



SELLING THE LADIES

Wouldn't you agree that this imaginatively delightful setting on which to drape floral chintz is very apt to send your wife rushing out for new slipcovers and curtains?

On the other hand, what's with this effort to sell shoes? It looks like her groveler is turned on when she takes 'em off. This ad's less a boost for Bally than for foot fetishists.



HOW TO KEEP YOUR FIGURE THIS SUMMER

Here's a how-to tip for those tempted to the between-meal indulgences that lard the figure.

Dick Voell, former Penn Central Corp. president and now head of Rockefeller Center, Inc., says that in the

summertime his wife hangs her slim-trim bathing suit on the door of the refrigerator. It makes for a compelling reminder that if that door opens enough, the bathing suit soon won't.

SOME SPEAK WELL OF US, OTHERS OTHERWISE

From a recent batch of references to *FORBES* in print, we winnowed these few:

Observed Donald Davidson, with the Houston Astros management, in an interview with the *St. Petersburg Times*, "Baseball has changed and not all for the good. I would never want to be the owner of any baseball team. If you want to know why, just walk into any major league locker room. Or look at the mailbox. It used to be everyone subscribed to *Sporting News*. But now, more players read *FORBES* or the *Wall Street Journal*."

Bob Greene, *New York Daily News*: "I am not sure how I got into picking out the most prestigious publication in America, but I have speculated in print that it

might be the *Wall Street Journal* or *FORBES* magazine."

From the Kokomo, Ind. *Tribune*: "Standard reading fare in congressional offices, according to most members interviewed, consists of the *Washington Post*, *New York Times*, *Wall Street Journal*, newspapers from the district, *Time*, *Newsweek*, *FORBES* and *U.S. News*."

William Abbott of *Self*, on magazine audience research: "It would be naive to believe that readers do not shade their answers or answer in an irresponsible manner. For example: 'I'm not going to have this interviewer think I'm some kind of dummy; of course I read *Scientific American*, *FORBES* and *The New Yorker*.'"

Justin Thompson in *Interiors* magazine: "Educate your-

self about your clients' business. Every designer should read the *Wall Street Journal*, *FORBES*, *Business Week*, the *New York Times*."

The Business Intelligence columnist of the *Cornish Times* in Great Britain states, "This column's Intelligence has been aided over the years by two U.S. business magazines—both extremely expensive: *Fortune* and *FORBES*, and, of the two, *FORBES* is by far the best and that opinion is shared in U.S. business circles."

From the *Montreal Gazette*: "Canadian Energy Minister Marc Lalonde attacked American misperceptions of the

national energy program, arguing the policy is good for Canada and profitable for U.S. investors. *FORBES* magazine was largely responsible for U.S. misconceptions."

And lest we get carried away, this from Ed Sheehan's column in the *Honolulu Star Bulletin* & *Advertiser*: "In your Kahala condominium the library of donations still functions at poolside. Our volunteer lady librarian religiously culls out *Playboys*, *Penthouses* and other such spice. Everyone appreciates her concern for our sensibilities, but not all are that interested in *FORBES* and *Architectural Forum*."

DID YOU EVER SEE ANYTHING LIKE TV HAIR?

With the rare exception of close-ups of actual disaster victims or competing athletes, do we ever see unruffled hair on any TV head? Whether the guys—or gals—have just undergone a colossal crash of car, plane or motorcycle, or are just sitting up after a steamy bedroom encounter, the coils remain pristine, neat.

I'm not sure the rest of us would really want to have the same advantage.

What it must take to rinse and comb out the stuff that is sprayed on the hair of TV actors—liquid of hair-removing potency and combs of steel. On reflection, isn't it fortunate that TV hair is unreal?

IF THE SHOE FITS

you're lucky.

WHEN IT COMES TO FASHION

way out never is.

GEORGE SHULTZ' UNFINISHED BUSINESS

By M.S. Forbes Jr.

Ten years ago, in a speech before the International Monetary Fund and World Bank, the then-Secretary of the Treasury George Shultz set forth American proposals for a new international monetary system. Reviving the spirit of that speech, as well as much of its substance, would stand us well today.

The economies of virtually every country—even Japan—are under pressure and unravelling; Shultz' priorities will be more economic than the usual military/diplomatic fare of a Secretary of State.

While international monetary systems may seem of interest only to central bankers and finance ministers, investors have a vital stake. Without one, economies are whipsawed between inflation and deflation, and financial markets take a beating. Since the U.S. began undermining the Bretton Woods international monetary system in 1966, stocks in real terms have slumped 60%, bonds almost 80%.

The Bretton Woods order, a keystone of the great boom of the 1950s and 1960s, had collapsed in August 1971. What to put in its place and how to avoid the shortcomings of the system motivated Shultz' ad-

dress in September 1972.

The conventional wisdom of that period was that the Bretton Woods monetary system fell because it placed too much of a burden on the dollar. The continuous boom in world trade obviously required adequate growth in money to finance it. But, the experts believed, the only way that liquidity could be supplied under Bretton Woods was either by growth in gold production—haphazard at best—or by more dollars, which could only come through deficits in our balance of payments. Yet such persistent shortfalls undermined confidence in the value of the greenback.

So financial policymakers in the 1960s invented a new form of money called Special Drawing Rights, nicknamed "paper gold," that would be issued by the International Monetary Fund.

The New Anchor

Shultz proposed making the nascent SDR the centerpiece of the new order: "We contemplate that SDRs would become the formal *numeraire* [standard of value] of the system."

The SDR would be tied to gold to give it value, but its growth would be regulated by the needs of inter-

national commerce. While Shultz was open to adjustments on timing and the details, he was firm on the necessity for a new system as an essential ingredient for continued prosperity: "[There is] a need for a comprehensive new set of monetary rules." He concluded, "My remarks today reflect the large agenda before us. Let us see if [a year from now] we can say that a new balance is in prospect, and that the main outlines of a new system are agreed. We owe ourselves and each other that effort."

No Follow-Through

Alas, that effort was never made. The U.S. did not follow through on Shultz' initiative. Soon thereafter the Treasury Secretary and the Nixon Administration were persuaded to scrap the project and instead to go for floating exchange rates—which was no system at all and had been a disaster when tried in the early 1920s and again in the 1930s.

Investors, businesses (especially manufacturers) and everyone else have been paying the price of that failure to put anything constructive in place of Bretton Woods.

A critical test for Secretary of State Shultz will be whether he can take up where he left off a decade ago.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

Capital Idea

It has been estimated that roughly 20% of the federal budget could be assigned to the category of "capital investments." If that spending was placed in a separate capital budget, there would be no deficit, and sound and necessary social and defense programs could be funded. The U.S. government would then do what the private sector does—pay for some of that investment and turn the rest into debt. The deficit would not "disappear." Rather, it would be treated as a cash-flow problem—a serious, but not a cataclysmic problem.

—David Mahoney, CEO, Norton Simon

Anxiety Quencher

A pool is, for many of us in the West, a symbol not of affluence but of order, of control over the uncontrollable. A pool is water, made available and useful, and is, as such, infinitely soothing to the western eye.

—Joan Didion, *The White Album*

Lobbying on the Hill

Pressure groups at work, as depicted by Representative Jim Wright (D-Tex.), House Majority Leader:

"The cheese industry agent of the dairy lobby was given a high priority assignment: Get the Lord's Prayer amended to read 'our daily bread and cheese.' He went straight to the Vatican, pleaded the humanitarian case for his depressed clients before the Papal Nuncio and offered a \$25,000 contribution to the Cardinal's Fund.

Outraged by the lobbyist's presumption, the Papal Nuncio refused.

"The lobbyist redoubled his arguments for equity and justice and increased his proposed contribution to \$50,000. Even more resolutely, the Papal Nuncio refused to consider the amendment. Driven to desperation, the lobbyist made his final offer: 'Look, we'll match what the bread people have been giving you.'"

"Success"

One evening we were talking with our three sons about success and our 10-year-old Russell said that he knew what that was and in a few minutes spelled it out for us.

Success is . . .
The kite
Up and up
On its first great flight
Success is . . .
The child
Beginning to know how to walk
With his walk so mild
Success is . . .
The bird
In his first flight
He has lost his family
Up and up he goes to reunite
—Harry M. James, Allentown, Pa.

A Healthful "High"

One healthful stress reducer that has been discovered by tens of millions of Americans is physical exercise. Sedentary observers may shake their heads at those who run, jump, cycle or swim, but studies have recently discovered that people who exercise regularly are probably motivated

ed far more by pleasure than pain. Exercise, even moderate activity, the studies show, prompts the release in the brain of endorphins, the body's own morphinelike substance, which has the effect of a tranquilizer without the expense and risk. Endorphin release undoubtedly accounts for the runner's high, the relaxed feelings following any vigorous workout.

—Jane E. Brody, *New York Times*

Tall Tale on Way

A telegram sent by Lord Charles Beresford to the Prince of Wales [who became Edward VII] after an eleventh-hour summons to dine: "Very sorry can't come. Lie follows by post."

—Signature

People who become legends in their own time usually have very little time left.

—John D. MacDonald, *Free Fall in Crimson*

When NYC Is Pastoral

Rupert Murdoch acknowledged that some people might carp at the kind of flashy paper the *Post* has become. He observed that circulation figures prove his editors right. "We have been criticized for emphasizing violence," he continued. "We live in a violent city. We don't make news, we report it. When New York becomes a pastoral city, we will become more bucolic."

He added that he also placed little value in readership studies that asked what kinds of stories people want to read. "Most will tell you what they think they want—or should want—to read, but not what they will actually buy and look at," he said. "New Yorkers will say they want book reviews, but, believe me, they read page 6 [a gossip column]."

—Advertising Age

Auction Fever Death?

There is no end to where Sotheby's gavel will fall next, President John Marion points out. The company can now sell a client a house, furniture, paintings, rugs, silver, accessories, children's toys, restore it all, and appraise it. "All we need to complete the package is to buy Frank E. Campbell Funeral Chapel," Marion says.

—Linda Bird Francke, *New York*



© 1982 NATIONAL LAMPOON INC.

CPT explains what happens after you buy a word processor.

If you bought any of the new CPT8500™ models, two things will happen right away.

First, your CPT representative will arrange an installation date that's convenient for you. And second, he'll get your staff started *immediately* in CPT's personalized training program, so they will be ready when the equipment arrives.

The big day

On the appointed day, after the installers depart, you're left with an impressive new system.

So you sit down at one of the workstations. And after a few hesitant moments, you're typing on CPT's unique video screen. Mistakes are corrected easily, right before your eyes. When your first document is letter-perfect, you print it out, via electronic printer, at 540 words a minute.

Best yet, you have a permanent record of what you've typed, stored on a "floppy" magnetic disk.

New discoveries

In the next few months, you'll be continuously amazed by how the new system speeds up work. How CPT's 10-key number pad on the keyboard makes it easy to handle figures. How



the display screen's preview area lets you review your floppy disk files—even while another document is being typed. And how easy-to-use software programs can help you handle payroll, manage inventory—even do sales forecasting.

But believe it or not, you've just begun to tap into the potential of your new CPT word processors.

Specifications subject to change without notice at the discretion of CPT.

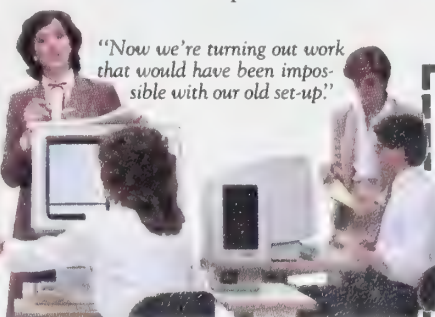


Relax. CPT will take care of all the details of installing your new word processing system.

Your automated office

As your office grows to rely on word processing more, you may want to expand. And that's when you'll be glad you bought a CPT system.

The CPT 8500 series is actually four word processors in one. The entry-level CPT 8510 can easily be upgraded to the more powerful 8515 or 8520—even the top-of-the-line 8525.



"Now we're turning out work that would have been impossible with our old set-up."

For extra flexibility, CPT's new Disk Units let you store between 150 and 2,600 pages of information at each workstation.

And when the time comes, CPT can even help you tie your word processing system into your larger array of office equipment.

Thanks to a new device called Office Dialog Link™, different

makes of word processors, computers, copiers, and other electronic equipment can freely exchange information. Office Dialog Link actually translates the various electronic languages of these different office machines—a real breakthrough in office automation.

If you'd like to take the first step towards automating *your* office, simply mail the coupon below.

CPT

FS-31

Mail to: CPT Corporation
P.O. Box 17
Minneapolis, MN 55440

Or call 1-800-447-4700 (In Illinois, 1-800-322-4400)

- ☐ Please send me your free booklet: CPT Shows You How To Get Into Word Processing - A Step At A Time
☐ I'd like a CPT sales representative to call me

Name _____

Title _____

Company _____

Address _____

City _____ State _____ Zip _____

Phone (_____) _____

CPT takes the mystery out of word processing.



Natural gas pipelines—extending more than 12,500 miles.

Strategically located onshore and offshore.

Supplying five per cent of the nation's natural gas.

Growing with a new pipeline to the Rockies.

These are a few of the highlights of Natural Gas Pipeline Company of America—one of the companies owned by MidCon Corp. Interstate gas transmission provides our major source of revenue and income.

But there's more.

Because MidCon is more than just pipelines. We also own one of the

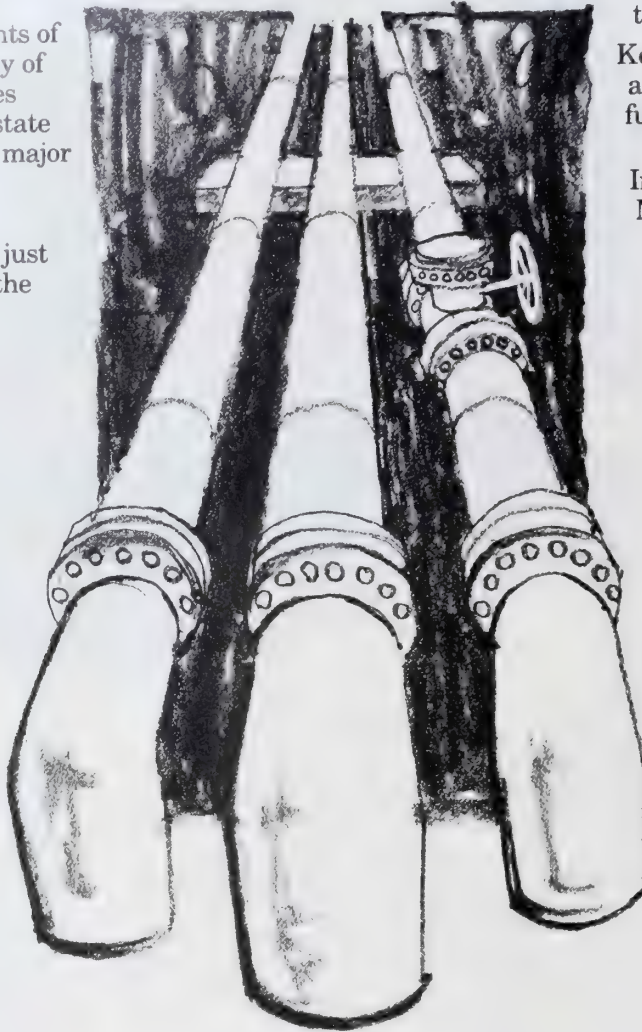
**Every day our
chief source of
income goes right
down the tubes.**

nation's leading onshore contract drillers. And three companies that explore, develop and produce oil and gas. Plus a coal mining and marketing firm.

Our assets exceed \$2.8 billion. Our management team is experienced and aggressive. And we've got the energy to grow in the '80s.

Keep your eye on MidCon. We're a company with pipelines to the future.

Get the whole story, contact:
Investor Relations Department,
MidCon Corp., 122 S. Michigan
Avenue, Chicago, IL 60603,
(312) 431-3800.



MIDCON CORP.

Pipelines. Energy. And the experience to grow from there.

GLOOM BUT NO DOOM

WELL, THE JULY TAX CUT CAME, but in spite of it the public wasn't battering down the doors to get into the stores. No magic. The happy-days-are-here-again school of economic expectations was sorely disappointed. Does this mean the economy is failing to respond? That the recession continues? No. The news is neither black nor white.

The economic decline is reversing—in the sense that the deterioration has ceased. What we do not yet have is a strong, sustained pickup. Waiting for the economy to pick up perceptibly will try nearly everyone's patience—it's going to be that slow. There will be starts and stops. False alarms. Interest rates will subside a bit, then rise again, subside. But the trend will be gently down.

How can we be optimistic? After all, unemployment is pushing 10% and major businesses are flat on their backs. Industrial production fell in June by 0.7%, following downwardly revised declines of 1.1% and 0.6% in April and May. Capital spending has fallen by almost 2.5%, and aftertax profits are off at a nearly 16% annual rate so far this year.

THAT'S PRECISELY THE POINT. In spite of all the horror in autos and in housing and capital goods, the economy refuses to fall apart. It has great underlying strength. Consider this: With all the problems, gross national product grew in real terms by 1.7% during the second quarter. Service sectors remain strong and that's now the biggest part of the economy.

Consumer spending, while hardly exuberant, is fairly strong. In the second quarter, consumer spending added \$7.2 billion to real GNP. With the exception of auto sales, which fell 6.9%, retail sales were virtually flat in June, following an impressive 2.7% rise in May. It's an economy that has bottomed but shows no signs of taking off.

BECAUSE CONSUMERS ARE GOING IT ALONE, the recovery will be the weakest postwar upturn yet recorded. In the average recovery, GNP has risen over 7% during the first year. Over the next year GNP will grow by less than half that figure. "A euphoric response by the consumer to the July tax cut and Social Security payout increase is not in prospect," points out Merrill Lynch economist Jack Lavery. But the least you can say for the tax cut is that it has kept things from getting worse.

Continued high interest rates will restrain recovery. Recent reports coming out of Washington claim that the fiscal 1983 budget deficit will top \$130 billion, up from the \$103 billion agreed to during the June compromise. True or not, the reports will help keep interest rates at unhealthy high levels. Despite all this the economy is turning around, even if the turn is hard to see. The economic news will remain sickly for some time to come. But the worst is over.

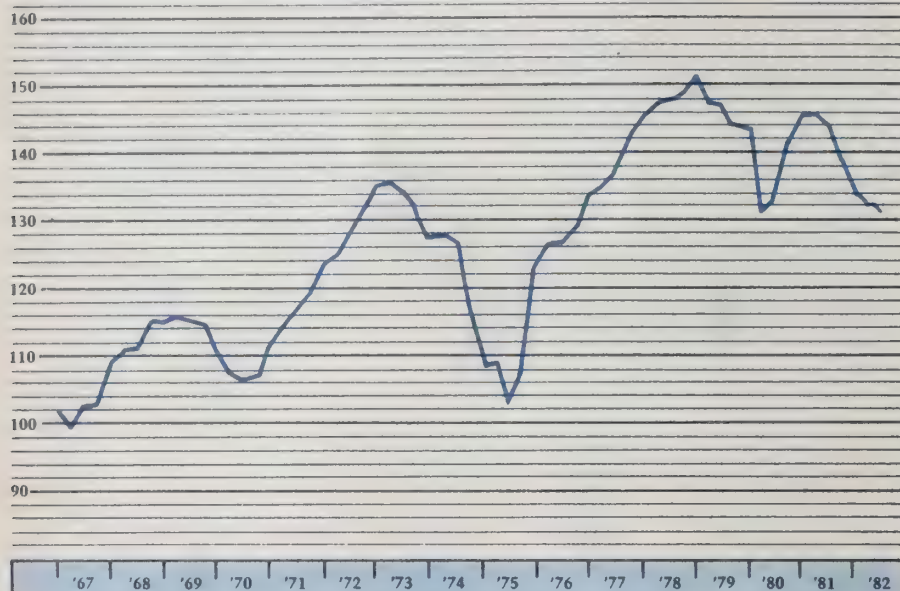
**Starts and stops
will continue, but the
basic trend is up**

**The underlying
strength of the
economy is impres-
sive by any standard**

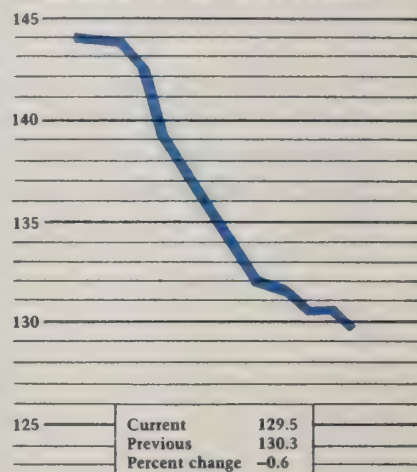
**The impetus of the
tax cut was partly
slowed by bad news,
but it was there**

The Forbes Index

Forbes Index



12-month close-up



Slip, sliding away. The Forbes Index' recent advance—the first in more than ten months—was very short-lived. It is now falling again, with most economic indicators heading down. Industrial production, for example, fell 0.7% in June, the fourth straight monthly decline. New housing starts took a real beating, dropping 7.9%.

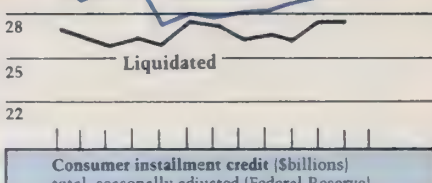
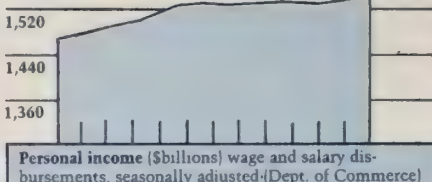
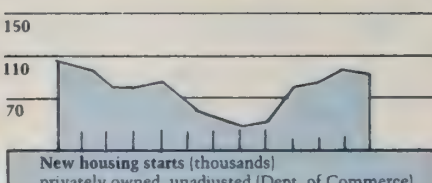
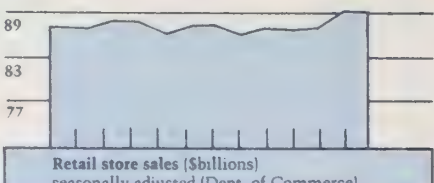
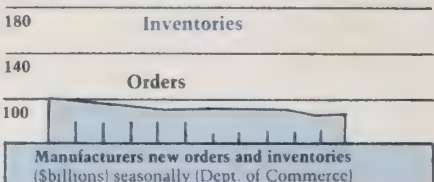
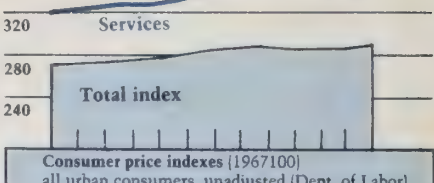
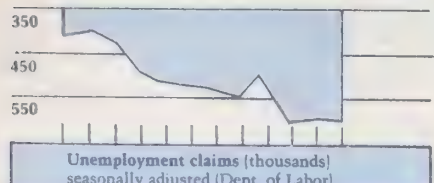
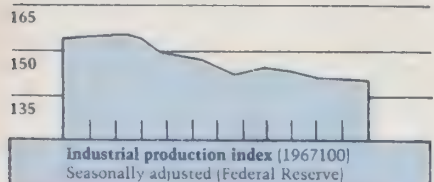
A nagging worry is that inflation may again be on the

rise. The June Consumer Price Index was up 1.2% over its May level. Some good news is that personal income also posted a gain, up 0.1% last month. Consumers, however, may be having second thoughts about spending. Retail sales for June declined by 1.5%. What it all means is that the recovery, expected to begin this month, may arrive well behind schedule.

The Forbes Index Components

The FORBES index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.





How we paid a taxi service.

—The Boeing Company

Boeing representatives end up at all corners of the globe on business. So Boeing gives them Citicorp® Travelers Checks to use for hotels, restaurants and other expenses. Unusual things like landing fees. Sometimes jet fuel. And in one case, even a camel.

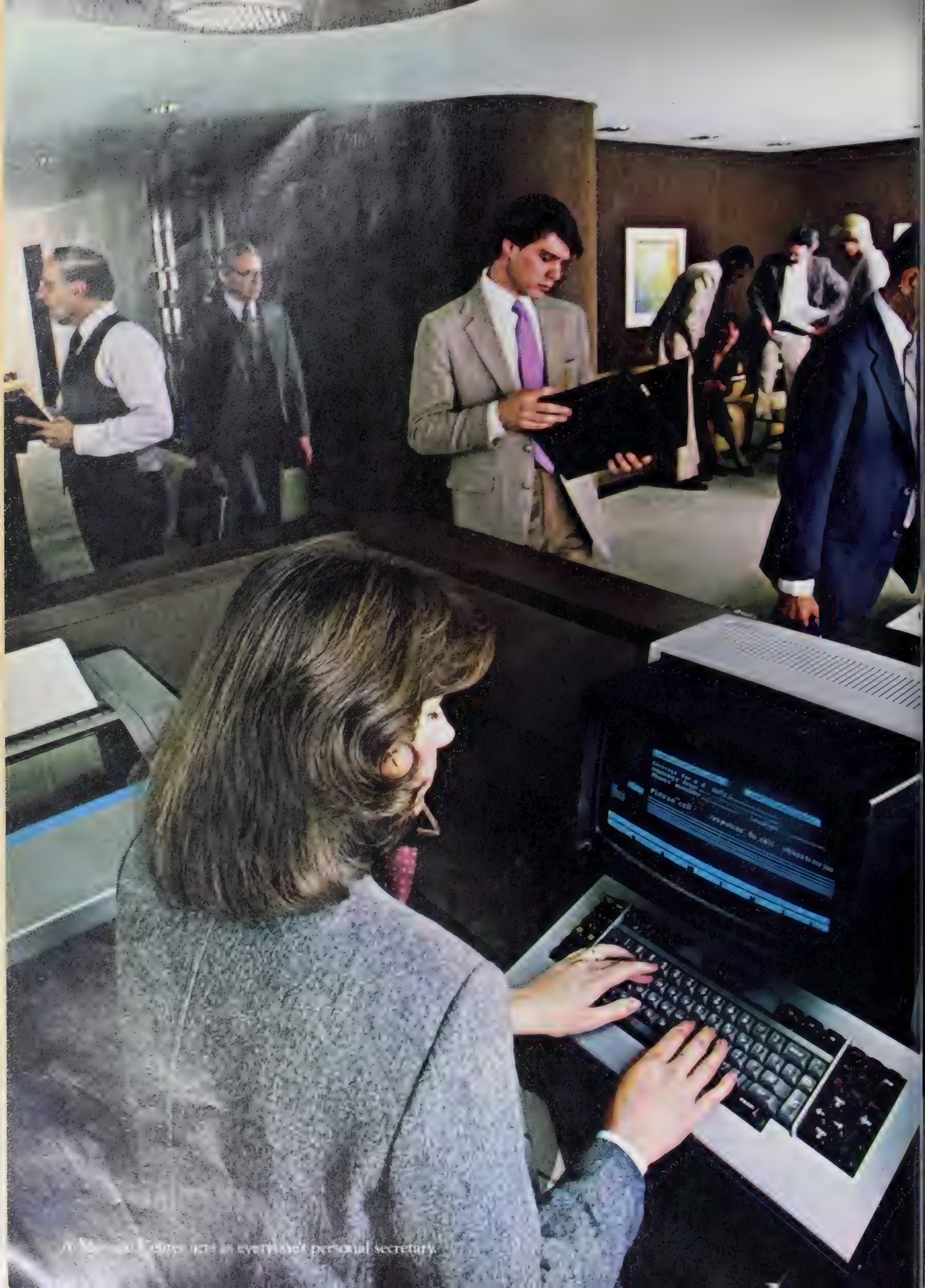
But you don't have to work for Boeing to find that Citicorp Travelers Checks are accepted



everywhere you travel, even in remote, out of the way places. And that they are refundable in thousands of locations around the world.

So whether you're headed out for a leisurely vacation at the shore, or traveling to a land of warm sands and friendly faces, carry Citicorp Travelers Checks. And be prepared for anything.

Because you never know
where you might end up.



A woman working on a computer in a busy office.

Bell's adding new dimensions to Dimension.

Bell keeps the benefits coming. You start with a highly flexible system for as few as 40 telephones, as many as 25,000. Step by step, as needs require, you add the specialized software functions Bell now makes available to those with new or existing Dimension® PBXs.

Add Data Switching and you integrate voice and data communications, transmitting data at rates up to 9.6 kilobits per second without costly adapters (modems).

Add the Message Center and calls get answered professionally, messages get delivered promptly, itineraries and directories are kept up to date, productivity rises.

Add Energy Management as an adjunct system that can cut your building's energy consumption up to 20% or more. Then, as improved productivity and cost effectiveness expand your business, add the Distributed Communications System to spread the benefits of advanced communications to multiple locations—while retaining centralized control.

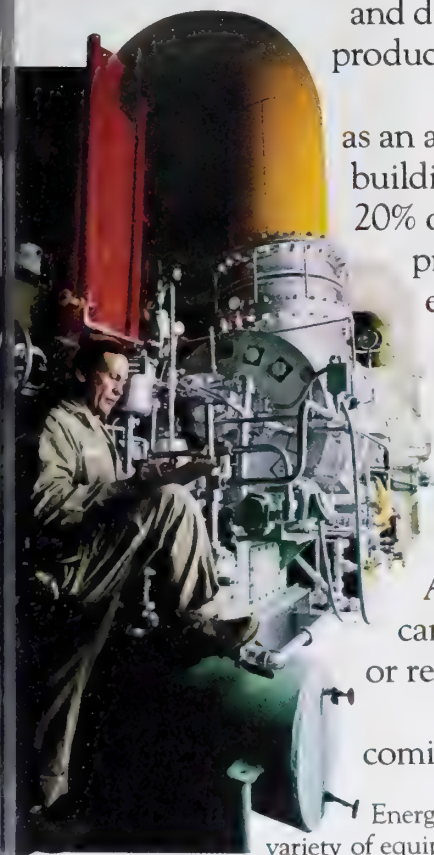
With Dimension PBX you have today's best-selling communications system. You have a way to make functional advances without the expense and disruption of new installations. And when Bell introduces its next generation of systems, you can carry over many of these benefits without changing operations or retraining your people.

Learn how Bell's new advancements can keep the benefits coming for your business. Call your Bell System Account Executive.

Energy Management can monitor a variety of equipment for a variety of businesses.



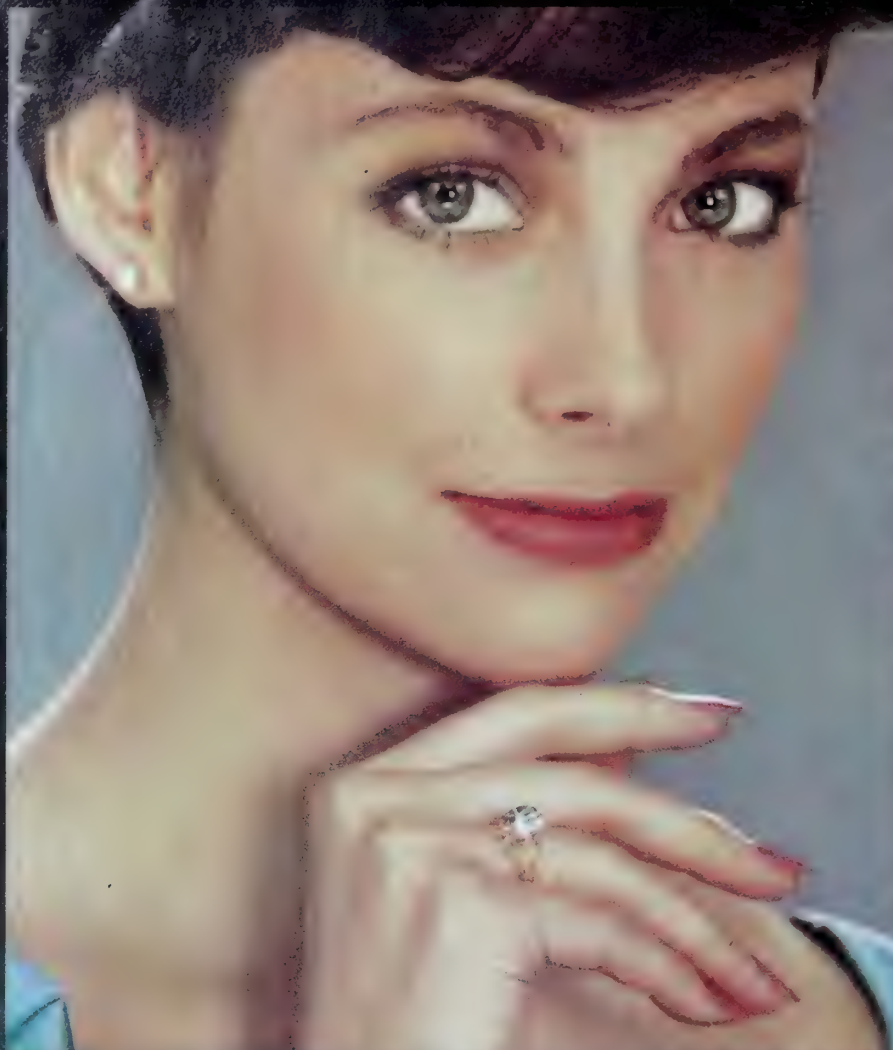
Now one system for both voice and data.



The knowledge business



A carat or more.
A little extra weight she won't mind putting on.



The 1.57 carat diamond ring shown below is enlarged for detail.



An extraordinary diamond
of a carat or more.

Every diamond is rare.
But a diamond of a carat or more
is only one in a million.
And, like love, becomes more
precious with time.

A miracle among miracles.
Born from the earth. Reborn on a
woman.

The extraordinary diamond
solitaire. When a man's achievement
becomes a woman's good fortune.

A diamond is forever. De Beers

In the middle of July, small investors began calling their brokers. That could be good for the stock market—but even better for the securities industry.

Riding the brokerage stocks

By Priscilla S. Meyer

SITTING IN HIS muted-green Manhattan office, Robert Fomon says: "This past week The Street has been seeing substantially more orders from individuals." The chairman and president of E.F. Hutton, the nation's second-largest publicly traded stockbroker, utters this with satisfaction. When all is said and done, it is the individual investor—"the little fellow"—who provides the icing on the cake for houses like Hutton. Without the individual investor you can't have a real bull market.

Merrill Lynch reports similar hopeful signs among individual investors, even though "The Herd" recently reported lower second-quarter earnings, in part because of earlier declines in retail business. *In the second and third weeks of July, individual orders

at Merrill were up between 10% and 15%. "The gains are well spread geographically," says Senior Vice President John Steffens, noting that individual orders for a recent Western Union offering outnumbered those of institutions by more than 10-to-1. "That's very unusual," he explains.

Hutton and Merrill Lynch together do perhaps 25% of the nation's brokerage business for individuals, so their results are an early clue to the return of small investors to Wall Street. "It's more than Merrill and Hutton; all the houses have seen increased orders from individuals in the past ten days," adds Perrin Long, analyst for Lipper Analytical. This is the first time, he says, such orders have increased markedly since July 1981.

The market seemed almost hungry for good news on which to base a rise. For example, Polaroid jumped sharply

on unusually heavy volume on news that Edwin Land had resigned as chairman; it was the kind of news that would excite the average investor.

If it keeps up, that's good news for the securities industry. Brokers make 22 cents or so per share on retail orders, compared with 8 cents from institutions, which until now accounted for most of the year's volume increases. Perhaps sensing the change in trend, shares of the publicly held brokerage houses were among the leaders in July's strong market.

Brokerage stocks are frequently a roller coaster ride. They have an exceptionally high beta factor, meaning that when market indicators rise they rise twice as fast. And when the market collapses they retreat even more dramatically. One reason is that rising markets tend to get individual investors itchy to trade—thus producing commissions. This turns the industry's inherent leverage positive.

In the next rally, the ride up could be even faster than usual. That's because a number of institutions missed the 1980 upturn in brokerage stocks and have kept close watch on the brokers ever since. The potential is impressive. Investors who bought shares in any of the brokerage stocks in late April 1980, when the stock market bottomed, more than doubled their money by that September. Buyers of Hutton and First Boston doubled their money in less than three months. Are those kinds of gains in store again? The answer depends in good measure on whether you think the nearly two-year-old bear market has finally come to an end. On this, the best experts are divided.

Off the bottom?

With more punch than index funds, which let you invest in the S&P's 500, the brokerage stocks move

up and down with the market. They bounced back in July. Have they turned, or is another tumble in store?

Company	1980 low ¹ price	1980 low ¹ date	1981 high ¹ price	1981 high ¹ date	Recent price	52-week low ^{1,2} price	52-week low ^{1,2} date	% gain since low
Donaldson, Lufkin & Jenrette	3 ³ / ₈	4/21/80	16	12/31/81	10 ⁵ / ₈	8 ⁵ / ₈	6/4/82	23%
AG Edwards & Sons	5 ³ / ₄	1/4/80	23 ¹ / ₄	11/30/81	16 ¹ / ₈	12 ¹ / ₄	6/18/82	27
First Boston	10	3/27/80	38 ³ / ₈	11/20/81	38 ¹ / ₂	23	10/1/81	67
EF Hutton Group	8 ¹ / ₂	1/3/80	46	11/4/81	29 ⁷ / ₈	22	6/18/82	35
Merrill Lynch & Co	17 ³ / ₈	4/21/80	43 ¹ / ₄	6/15/81	27	23 ³ / ₈	3/17/82	12
Paine Webber	8 ¹ / ₄	4/21/80	27 ¹ / ₈	12/18/81	18 ³ / ₈	13 ³ / ₈	9/25/81	40

¹Closing price. ²Through 7/22/82.

Sources: Wilsore Associates, FORBES

Trading volume still runs high on the commodity exchanges, but gone is the exuberance of yesteryear.

A victim of deflation

By Thomas O'Donnell

YOU THINK TIMES ARE TOUGH for the stock-and-bond boys—look at commodities,” says one broker. “Things have rarely been so bad.” That statement is an exaggeration. Things are bad in commodities only by comparison. The record year for brokerage commission revenues was 1980: \$626 million. This year revenues are running at an annual rate of \$580 million, only a 10% decline from 1980. While trading is down in metals and agricultural commodities, some of the slack has been taken up by financial and stock index futures.

Yet the gloom is widespread. A seat on the Chicago Board of Trade, which sold for \$330,000 in 1980, recently

went for \$182,000. A New York Futures Exchange seat can be had for a bargain-basement \$17,500—and no waiting. Shearson/American Express once earned nearly 20% of its profits from commodities; that's down to less than 10%.

Why so much gloom? In part, it is psychological. A business accustomed to growing at 20% tends to feel depressed with no growth and almost suicidal with a decline. Moreover, there are real problems:

- A recent Supreme Court ruling allows investors to sue futures exchanges. The 11 exchanges already face lawsuits seeking more than \$1 billion in damages. “The effect is like malpractice in medicine,” says Gene Donney, president of Hackensack,

N.J.-based Commodity Lab, Inc. “Everybody is trying to curb practices that could get them into trouble.”

- Lingering fallout from the Hunt brothers' silver bubble of 1980, a factor still keeping the public out of the metals market. “It will be years before the industry recovers from that one,” says the broker. Also depressing the market is the possibility that the Hunts could dump some of the 60 million ounces of bullion they still own.

- The elimination of tax straddles, which mainly affects traders who built fortunes during the 1970s but who sometimes avoided the taxman. They did so by offsetting gains with losses, while their profits were continually carried forward. The August 1981 tax law changes this, and many pit traders are paying taxes for the first time in years. Some bills could run into the millions.

- A Senate subcommittee has just released a study stating that the Commodity Futures Trading Commission has failed to protect investors from commodity frauds, which have totaled more than \$1 billion since 1977. The commission's charter comes up for congressional review this fall. A likely outcome is that the free-market-oriented agency will be replaced by a new commission less willing to let the industry regulate itself.

This year's volume is less profitable. Competing exchanges are ordering their members to do business with each other. This technique, called “painting the tape,” is aimed at building the liquidity necessary to attract the public. It's costly, but the exchanges and the traders consider it a necessary business expense, an investment in the future, if you will.

Undaunted, the industry is planning to roll out new products, led by options on commodities. These have been banned since the 1930s and were the cause of headline-grabbing, boiler-room abuses in the 1970s. A three-year test program may begin in a few weeks. Also, a new exchange, trading financial futures on a 24-hour worldwide basis, will open in London in September. But there's a question as to whether the new exchange and new contracts can capture enough capital or generate enough volume to become major successes.

The hard truth is that the futures markets feed off inflation and the uncertainty it creates, something that goes a long way toward explaining why the market boomed during the 1970s. “We play a bad-news game,” says the broker. “The decline of inflation may be good news for the nation, but it's not good for us.” ■



Trading at the Chicago Board of Trade

The hard truth is that futures markets feed off inflation.

Everybody wants a balanced budget, but nobody wants to pay the price for it. Good-bye constitutional amendment.

Rodino at the bridge

By Allan Dodds Frank

JUST WHERE IS THE balanced-budget constitutional amendment that grass-roots America is said to long for and that President Reagan praised from the Capitol steps last month? Bottled up in Representative Peter Rodino's House Judiciary Committee and likely to remain there because some of the amendment's avowed backers are privately pleading with Rodino (D-N.J.) to stifle it.

Governors and state legislators are coming to realize that if the budget is balanced under the terms of the proposed 27th amendment, they could be forced to raise new taxes to offset further cuts in federal funds. A Wharton Econometrics study estimates that if the amendment were law today, the states would have to come up with \$37.5 billion in new taxes to maintain current programs.

In Washington, Reagan's open endorsement at a Capitol rally may have stiffened the backs of liberal Democrats who do not like the amendment but feared opposing it openly. In recent weeks Representative Claude Pepper (D-Fla.) has warned that the amendment is a "sneak attack" on Social Security and veterans' benefits.

Some strong Reagan supporters are also heard in opposition. Representative Henry Hyde (R-Ill.) fears that the amendment could destroy the defense buildup. Supply-sider Representative Jack Kemp (R-N.Y.) privately worries that the amendment could mean an end to future tax cuts. Under the amendment, a peacetime deficit can be authorized only by a tough-to-muster three-fifths majority in both houses of Congress.

The National Tax Limitation Com-

mittee and the National Taxpayers Union have convinced 31 states to pass some form of resolution calling for a constitutional convention to draw a budget-limitation amendment. Their argument, that only the amendment can cure the "spending bias" of Congress, has succeeded at the grass roots because citizens are truly concerned about deficits and inflation. Indeed, Lewis Uhler, president of the National Tax Limitation Committee, says, "We are prepared to go to the states for a constitutional convention in the event Congress fails to act."

But politicians are cynical—their trade demands it. They realize such an amendment would curb their ability to hand goodies to the voters without taxing them in return. Hence the stalling. Senator Charles Mathias (R-Md.) observes: "If you spin something out long enough in this legislative process, the public really begins to see the frailties of the concept." The unflappable Rodino, who headed the House Watergate committee in 1974, is ignoring the pressure. "I've been in the hot seat before," says the 17-term congressman from Newark.

Oh, well. The almost certain result of such a constitutional amendment would be Congress devising ways to get around it. Congress already has a so-called off-budget account, now totaling nearly \$20 billion, which finances expenses from government borrowings rather than appropriations. Oil for the Strategic Petroleum Reserve, costing about \$2.8 billion this year, is off-budget, for example. Another device, prevalent in states with balanced-budget amendments, is the capital account, which separates capitalized building costs from annual operating expenses. Under that system, the federal budget would be close to balanced right now.

The voting public clearly wants a balanced budget. But it isn't going to get one soon. Not by constitutional amendment, anyhow. ■

Cincinnati Milacron finds good intentions, at least, among its customers in smokestack America.

Promising

By Maurice Barnfather

IS IT TRULY DARKEST just before the dawn? U.S. industry is operating at 70% of capacity; unemployment in the traditional heavy industries is running at 13.2%. There is almost no evidence of the long-prom-

ised surge in capital spending. Yet Chairman James Geier of Cincinnati Milacron—an admittedly chronic optimist—is more hopeful than ever. "This is unlike any recession I've seen before," says the 56-year-old boss of the U.S.' largest machine tool maker. "We're swamped with inquiries."

Good news

Where's the evidence that industry in America's heartland is shaping up? Well, to start with, there's Dahlstrom Manufacturing Co. in Jamestown, N.Y.—a once thriving, now faded center of furniture making 80 miles southwest of Buffalo.

Dahlstrom President Harold Bolton's response to the recession this year was to buy a second \$96,000 robot for the custom sheet-metal factory on Buffalo Street. Reckoning that the new machine will pay for itself in six months, Bolton is considering a third.

Dahlstrom? It's an \$18 million (sales) company that once made hollow metal doors—its high point was making doors for the Empire State Building—and now makes metal frames for computers and

medical equipment. Bolton, an engineer by training who came to Dahlstrom 11 years ago and is now its largest shareholder, says the company is holding its own. Robots are one reason it is able to.

A robot, Bolton explains, takes a few hours to weld a computer mainframe, whereas human welders take a day for welds of uncertain quality. Bolton discovered additional capabilities when he started using the robot for arc welding in 1979. "We do something hardly anyone else does, we weld aluminum," he says. The speed of the robot means heat that previously buckled the aluminum, as a match does cellophane, is applied and removed before distortion occurs.

In Kansas City, Michael Trimmer, who runs Precise Forms Inc.,

a small (about \$3.5 million revenues) aluminum forms company, has also discovered that robots can arc-weld aluminum. Since installing a Milacron robot last February, Precise Forms' production has increased 50% on repetitive jobs.

You don't have to be small either. Marshalltown, Iowa's Fisher Flow Control Valve Co. is a \$593 million (revenues) subsidiary of Monsanto Inc. Fisher finds its materials-handling robots palletize components at a speed that keeps in-process inventory on the valve regulator and controller line to a minimum.

To be sure, one swallow does not a summer make—nor even three swallows. But evidence is mounting that something good is happening out there.—**M.B.**

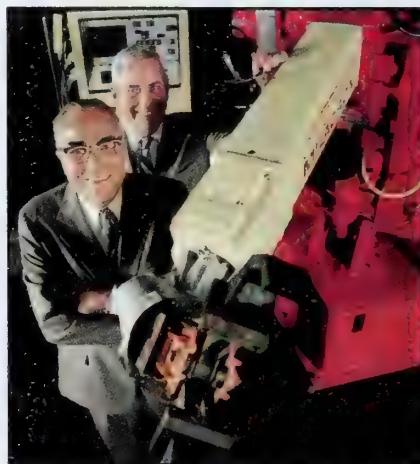
Big companies and small, he says, are asking Milacron about how best to use computerized systems of machine tools and robots to cut labor and inventory costs and raise productivity. "Customers are paying for feasibility studies," says Milacron President Clifford Meyer. "They wouldn't do that if they weren't serious."

Cash is tight and inquiries don't always become orders. Milacron's earnings fell 24% in the first half on a 3% drop in sales. For the full year Geier estimates earnings will be off 50% from last year's \$61 million, with sales down 15% from 1981's \$934 million. Backlog is \$360 million, compared with \$656 million last year. But he is convinced there will soon be a rush to rip out old plants and install new machinery. "It will be modernization, not expansion," says Geier.

Is Geier merely trying to talk up the business? Maybe not. In his favor is the fact that declining prices for electronics are making modernization a bargain. Geier points to microprocessor-based controls that cost \$5,000 apiece today compared with \$25,000 five years ago. Microprocessors—essentially computers on silicon chips—can command robots in simple materials handling or complicated welding jobs. Or they can instruct machine tools on patterns for cutting metal. Such machinery can double productivity in tasks such as arc welding, says Bache & Co. analyst Laura Conigliaro. In Milacron's plastics machinery business—which contributes roughly 12% of its earnings on 15% of its sales—there is a twin-screw ex-

truder whose productivity has been improved 100% in three years, for a price rise of 12%, to \$116,000.

The big promise lies in robots, for which Milacron last year opened a \$9 million plant in Greenwood, S.C. Geier sees robotics—now around 10% of Milacron's sales—contributing as



Milacron's Meyer and Geier with robot
More inquiries than orders.

much to the company as machine tools (now 68% of sales, 78% of earnings) within five years.

Aiming to capture market leadership in robotics—currently held by Condec Corp.'s Unimation subsidiary (FORBES, Apr. 27, 1981)—Geier had Milacron spend \$31 million, 3% of sales, on research and development last year, and plans to spend about the same amount this year. Another \$50 million is going to capital spending.

Some might question whether

Geier is forgetting that the Japanese are the world's largest robot producers. Certainly Milacron should know how tough competition is from Japan—its machine tool makers left Milacron eating dust in laser-controlled machines during the last decade. Japanese robots are mainly simple "pick and put" types, while the U.S. leads in intelligent robotics. As an example, they point to Milacron's recent agreement with small Dainichi Kiko for the design of a new, basic robot. Dainichi, say the Milacron people, will build the mechanical implement—worth one-third of the final value. But back in Cincinnati, Milacron will design and install electronic controls and motors—worth two-thirds of the final value—that make the machine work.

For much the same reason—Milacron's experience with customers and the fact that it does its own electronics work in-house—Geier professes no fear of such competition as General Electric, IBM, Westinghouse, Bendix, Prab and ASEA. "They are trying to play catch up," he says. "The system is the key, and we're ahead in both software and hardware."

Ever the optimist, Geier. But something of the realist, too. In recent years, he has sweated Milacron's long-term debt down from 45% to 26% of capitalization, has held short-term debt to \$8.6 million and balanced that with \$60 million in cash and investments. With that kind of strength he can wait through the current bad times until his customers turn their good intentions into orders. ■

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Bjorn Ahlstrom
President, Volvo North America Corporation

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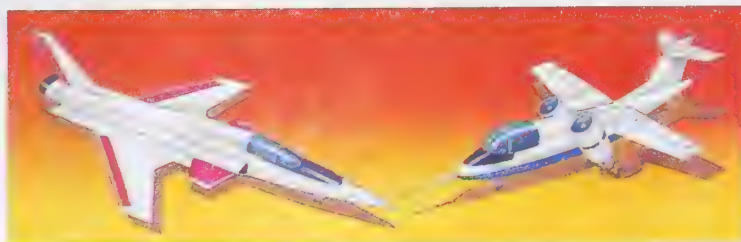
ONE COMPANY IS HELPING TOMORROW DAWN TWICE IN THE SAME SKIES. THE COMPANY IS GRUMMAN.

In wind tunnels and on test stands, new Grumman aircraft are helping move the future of flight into the present in two different ways.

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With Grumman's leadership reputation in lightweight, super-strong composite materials, we're also designing and testing an aircraft with wings that sweep forward instead of back. Known as the X-29A, this innovative design will do a lot more than demonstrate a broad range of advanced technologies. It will reduce aerodynamic drag, improve fuel efficiency and, with its lighter weight and greater maneuverability, will reach a new plateau for high performance aircraft.

Providing tomorrow's aircraft with capabilities like these requires a host of technologies, many of which can be seen in the tactical aircraft Grumman produces today – the F-14, A-6E, E-2C, EA-6B and EF-111. So whether it's keeping today's aircraft preeminent or making tomorrow's unmatched, we have the technology for the job at hand.



THE TECHNOLOGY FOR THE JOB AT HAND.



Using the native instincts of a small-town merchandiser, Sam Walton has amassed a personal fortune of over \$700 million.

How Sam Walton does it

By Howard Rudnitsky

TWENTY YEARS AGO Sam Walton was 44 years old and in a position to sit back and relax. Based in rural Bentonville, Ark., Walton, his wife Helen and brother Bud were the nation's most successful Ben Franklin franchisees. "We were a small chain," says Walton of his 16-store operation. "We had our own buying office, used a Ben Franklin warehouse and coordinated advertising and marketing. Things were running so smoothly we even had time for our families."

What more could a man want? A great deal, as it turned out. Sam Walton felt he wasn't as secure as he seemed to be. "I could see that the variety store was gradually dying because there were giant supermarkets and then discounters coming into the picture," explains Walton. Gibson's, a Texas-based chain, rubbed the point home by opening a discount store in Fayetteville, where Walton had a variety store.

Far from being secure, Sam Walton knew he was under siege. He decided to counterattack. After a quick trip around the country in search of ideas, Walton began opening his own discount stores in small Arkansas towns like Bentonville and Rogers.

That was 20 years ago. Today Walton has 500 discount stores in 13 contiguous states, mainly in the Sunbelt—and Wal-Mart, with \$2.5 billion in annual revenues, is one of the most profitable companies in all of U.S. retailing. While most discounters would gladly settle for 2.5% net margins, Wal-Mart's run closer to 3.5%. Its return on investment over the past decade has averaged 33%.

Growth? In 1981 Wal-Mart racked up 50% gains in sales and earnings. In part the increases came from opening 69 new stores and the acquisition of the 92-unit Kuhn's Big-K chain. But Wal-Mart's same-store sales were up a remarkable 15% as well. Through June 1982—a brutal period for most retailers—same-store sales were ahead 12% while first-half earnings should rise by an estimated 35%.



Wal-Mart store in Fayetteville, Ark.
Bargains for the small set, too.

Lots of men, of course, got in early on the trend to discounting but faltered after a dozen years or so. What did Sam Walton do that was different? Essentially he realized that there was a market for discounters in small towns; his rivals were concentrating on urban areas. Beyond that, Walton understood the vital importance of distribution. Other retailers built warehouses to serve existing outlets, but Walton went at it the other way around. He started with a giant warehouse, and then spotted stores all around it. One large Walton warehouse served a radius of 400 miles.

That way Walton turned a potential weakness into a strength. To be suc-

cessful in his small, out-of-the-way locations, he needed the same low-cost, efficient delivery methods of his big-city counterparts. He got them by opening stores in clusters, pooling advertising and distribution overhead. To this day, the heart of Wal-Mart's success is the fact that most stores are only a six-hour drive from one of the company's five warehouses. It was a way of making small stores as efficient as large ones.

Regional chains like Ames Department Stores, T.G.&Y. and Dollar General sell in small towns, too. Nationally, a heavy hitter like K mart has also moved into smaller towns. Today K mart has about 190 stores in Wal-Mart-size markets.

The difference is that Wal-Mart was among the very first—and it is still the most successful. The formula is barebones: At a typical barnlike, 54,000-square-foot Walton store, for example, merchandise is displayed in plastic bins and on metal racks with signs proclaiming BUY NOW AND SAVE! The emphasis is on branded hard goods. Items like GE automatic percolators or Black & Decker drills account for two-thirds of sales, and the balance comes from soft goods.

Like most discounters, Wal-Mart fills the aisles with tables displaying sale items backed by heavy promotion—an Electronic Bug Killer for \$44.96, for example, or an RCA black-and-white 12-inch TV for \$79.88. Here, however, is where the chain's competitive edge comes in. According to a survey by *Discount Store News*, each Wal-Mart sale table generates twice as much revenue as competitors'. Wal-Mart's sales per square foot are \$133, vs. the industry average of about \$100.

A typical customer, for example, visits a Wal-Mart store two or three times as often as he stops at a competing discounter. And he spends more on each visit. Norma Richardson of Ruston, La. says, "They've usually got the best selection and prices and they take back merchandise without a question."

Sam Walton also merchandises his company's stock as skillfully as he does his stores. At the moment 38% of its shares are held by institutions, and each year he invites over a hundred analysts and institutional investors to Bentonville for his annual meeting. The mid-June occasion is a day-and-a-half session where investors meet top executives as well as 350 Wal-Mart district managers, buyers and hourly salespeople (called as-

sociates). Investors see a give-and-take meeting between buyers and district managers. "Walton also introduces his employees. They shout his name and extol him. It's a sight to behold," says a regular attendee.

The wooing of investors is crucial to Walton's strategy. Going public was a key element in it. In 1970, after he had been discounting for eight years, there were some 30 Wal-Mart Discount City stores, but Walton realized that he was in a bind. "Here we were in the boondocks," Walton explains, "so we didn't have distributors falling over themselves to serve us like competitors in larger towns. Our only alternative was to build our own warehouse so we could buy in volume at attractive prices and store the merchandise."

But big warehouses cost big money, and a small retailer like Walton couldn't afford to incur a heavy debt burden. If he could market his stock as a hot item he could get equity capital with little dilution. In the midst of a boom in new issues and on the strength of his impressive growth record, Walton sold a small part of his business to the public for \$3.3 million. The money helped him pay for a \$5 million distribution center big enough to serve 80 to 100 stores.

Original investors have been rewarded spectacularly. Those 1970 Wal-Mart shares cost \$16.50 and are

worth some \$900 today. Since then, Walton has tapped the equity markets five times, raising a total of \$123 million and keeping his overall capital costs well below those of competitors. Last December, Wal-Mart sold \$60 million worth of convertible debentures at 9½%. Wal-Mart last month announced its intention to sell 2 million shares of additional common. Given today's high interest rates, it's a lot cheaper to sell stock at a 20-times-earnings multiple than borrowing—and it's money you never have to pay back.

That has helped Wal-Mart keep debt modest and still build its impressive distribution system. Today close to 80% of the chain's merchandise passes through one of five warehouses. That percentage is more than K mart's or Sears'. Its newest and largest warehouse will come on stream next spring, and Wal-Mart will have a total of at least 3 million square feet of storage space.

Wal-Mart's distribution operations are highly automated. Terminals at each store are used to wire merchandise requests to a warehouse, which in turn either ships immediately or places a reorder. Wal-Mart computers are linked directly with 200 vendors, making deliveries even faster. "We spend a little over 2 cents for every dollar we ship out," says Walton. "For others it's around 4 cents. That's a 2%

edge right there on gross margins."

Wal-Mart owns a fleet of 268 trucks that can deliver goods to any store in 36 to 48 hours from the time the order is placed. "After our trucks drop off merchandise at our stores, they frequently pick up new merchandise from manufacturers on the way back to the distribution center," says President Jack Shewmaker. "This year our back-haul rate is running over 60%." You don't need a computer to see this as yet another way of cutting costs.

Management style at Wal-Mart is as much press-the-flesh as watch-the-pennies. From Monday through Thursday Walton and his top executives travel in four company-owned planes, each aiming to visit a half dozen to a dozen stores every week. He chats with staffers—hundreds of whom he knows on a first-name basis—to find out what items and promotions are popular. He also helps managers exchange ideas and solve problems. On Friday and Saturday the boss is back at headquarters attending merchandise meetings and listening to plans for weekly and monthly sales budgets and promotional programs. Walton's 7:30 a.m. Saturday executive breakfasts—coffee and doughnuts—are strongly ingrained rituals.

Sam Walton isn't one to waste money on frills. His original office was a small room above the Benton-



Sam Walton, Wal-Mart founder and chairman, checking his stock

To make small beautiful, he turned a distribution liability into cost advantage.

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ville store, with a desk jerry-built from two filing cabinets and a piece of plywood. He still drives a beat-up Chevy, though he owns a plane. "We've been known to hold directors' meetings in the warehouse," adds Jack Stephens, a Little Rock investment banker who first became a Wal-Mart director in 1970.

Though Walton watches expenses, he doesn't stint on rewarding sales managers. A Walton store manager can keep up to 10% of his unit's pretax profits—which means *average* salaries are \$40,000 to \$50,000 annually. That's an impressive income in rural areas. Wal-Mart also encourages employee stock purchases—about 8% of Wal-Mart stock is owned by employees. Finally, there's a corporate profit-sharing plan with 22,000 participants out of 41,000 employees and an accumulated \$58 million to date. "They're like Tandy Corp. in terms of incentives," says one analyst. "Wal-Mart wants everyone working for the company instead of against it as they do in some companies."

It also wants superior performance—and, as a nonunion employer, has much flexibility to encourage it. "We put up on the back wall what every department grosses each month," says Walton. "We show how they ranked compared to the rest of the stores, within the region and the company. If they're doing better than average they get rewarded with raises, bonuses and a pat on the back. If they're doing poorer we have a talk with them to find out why and correct it. This leads to greater productivity."

Consider how Wal-Mart deals with inventory control. Lost or stolen merchandise costs most retailers over 2% of every sales dollar. Instead of treating sales clerks as suspects, however, Wal-Mart rewards staffers with 50% of the savings over the average loss for the previous three years. After five years under the plan, shrinkage has dropped from 2.2% to 1.3% of sales.

How long can the company keep up its phenomenal growth? "In five years they'll run out of towns with 25,000 people and they'll be forced to enter the cities where there's more competition," argues one rival discounter. Sam Walton disagrees: "People said that about us in 1970 and 1975," he explains. "When K mart started moving into small communities everyone thought our days were numbered. I don't really see any limits as long as we manage the business well."

Still, Walton is hedging his bets on a modest scale. Wal-Mart is already testing its ability to handle bigger stores in bigger towns. Springfield,

Mo., for example, has 150,000 people and a Wal-Mart store that's 50% larger than the company average. "We'll only move up when we've already surrounded an area and are seeing customers drive from the center city to buy from us," says President Shewmaker. Another flier: still smaller stores for communities of 5,000 and under. Wal-Mart will know in a couple of years whether its formula can work there, too.

There is yet another way for Walton to expand: by taking over failing chains and Waltonizing them. In July 1981 Walton picked up ailing Kuhn's Big-K Stores—one warehouse and 92 locations—in effect acquiring cheap leases at a discount price. Wal-Mart assumed \$19 million in debt and issued \$7.5 million worth of preferred stock. Now Kuhn's has a new management team and \$60 million in cash for a major face-lift. Profits may pour forth, as they did after Wal-Mart's only previous acquisition—the 1977

"In the boondocks we didn't have distributors falling over themselves to serve us. Our only alternative was to build a warehouse so we could buy in volume."

purchase of Mohr Value Stores. "We fixed them up and retrained the people, and now they're our best group," says Walton.

Until now, we have put off asking the hardest question: What happens after Walton leaves? "I could walk away and the company wouldn't lose a step," he replies.

Perhaps. But Walton's record of dealing with successors isn't convincing. In the mid-Seventies he was grooming Ron Mayer to take over. But Mayer left suddenly for Ayr-Way Stores—putting Walton firmly back in the saddle. These days Shewmaker, 44, who has been working for Walton since 1969, is the clear number two man. Folks in Bentonville, however, aren't betting the farm that he'll be running Wal-Mart soon.

Sam Walton is still going strong. With his stock selling at 20 times earnings—an almost incredible price in this market—he presides over a fortune of around \$750 million. No stock may be worth that multiple, but other businessmen would do well to study the way Walton keeps his investors happy and his employees motivated. There's more of a lesson in that than can be had from trips to Tokyo or books on Theory Z management. ■

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How Mike Dingman trebled Wheelabrator-Frye's assets without much increasing debt and with minimal equity dilution.

Magic show

By Subrata N. Chakravarty

TWO YEARS AGO, when Wheelabrator-Frye Inc. rushed in as a white knight to protect Pullman Inc. from the clutches of J. Ray McDermott, it looked as if Wheelabrator Chairman Michael Dingman might have taken on more than he could handle. Pullman, with 1979 sales of \$3.2 billion, was more than three times as big as Wheelabrator, and it was clearly in trouble. Its railcar business was slumping and its construction business was slowing. In 1980's second quarter, Pullman sank into the red. Nevertheless, Dingman shelled out \$300 million in cash and 6.3 million shares of Wheelabrator, worth an additional \$303 million. A worldwide capital goods, engineering and environmental control company, it had almost trebled its assets with one move. Despite the resulting 60% increase in common capitalization, there was no real equity dilution.

Too much to handle? Not for Mike Dingman, who has never been shy about wielding the ax. No sooner had he put Wheelabrator-Frye together in 1971 than he chopped it in half. He has been true to form with Pullman.

Wheelabrator had more than doubled its debt to \$580 million to acquire

Pullman. Dingman's asset-stripping was designed to bring down the debt to normal levels as soon as possible. He quickly sold off two subsidiaries, bringing in \$71 million in cash and ridding himself of \$11 million in debt.



Wheelabrator-Frye Chairman Michael Dingman

"They weren't aggressive," says Dingman about Pullman's Kellogg division. "They are now."

He sweated some \$170 million out of inventories and receivables at Pullman Standard, the railcar maker, and Trailmobile, a maker of truck trailers. Late last year he spun off Pullman Standard and gave it an option to buy Trailmobile at the current book value. He gave 50% of the new Pullman Transportation Co. to Wheelabrator-Frye common stock shareholders in the form of a taxable stock dividend, while retaining a 50% interest through convertible preferred stock. That took Pullman's name and its troubles off Wheelabrator's books, while leaving Dingman the option of cashing in on any upturn in the rail transport business. By the end of 1982's first half, total debt was down below \$190 million, for a debt ratio of just over 20%—a moderate figure by any standard.

Dingman kept Pullman's engineering businesses—which is what he wanted in the first place. Pullman's M.W. Kellogg division specializes in refineries. Together with other Pull-

man engineering divisions it fitted nicely with Wheelabrator's smallish Rust Engineering subsidiary. Dingman also kept the old Pullman leasing business—23,000 railroad freight cars and 21,000 truck trailers.

After all the ax-wielding, Dingman wound up paying just \$230 million in cash and stock to get leasing subsidiaries with a book value of \$200 million, plus interests in Trailmobile and Pullman Transportation worth \$75 million more. Dingman has further reduced the final cost of the Pullman acquisition by buying back many of the newly issued Wheelabrator shares during the general stock market decline that has ensued. The real prize, the engineering companies, cost him less than nothing in the end.

Not that Dingman wasn't inheriting a long list of problems with the engineering businesses. Before the acquisition, revenues, new orders and backlogs were declining, and the division was losing money because of large writeoffs at Swindell, another Pullman division that builds steel-

and ceramic-making plants. Down came Dingman's ax. Overheads were slashed with wholesale firings of staff. Wheelabrator's tighter cost controls were installed. A Wheelabrator man, Robert Page, 54, was transferred to Houston as president of Kellogg, shunting Kellogg's President Frank Shipman along to the largely ceremonial job of chairman. "They weren't aggressive," says Dingman dryly. "They are now."

Kellogg is growing again and growing well. This year it has won some large contracts overseas and increased its engineering backlog 20% to over \$3 billion. Bidding together, and now merged, Swindell and Rust won the contract to provide the design and engineering for U.S. Steel's \$800 million Fairfield, Ala. tube mill. Rust is also undertaking construction work for Wheelabrator's own plants. As a result the engineering subsidiaries' sales and earnings were up sharply in the first half of 1982.

How are the rest of Wheelabrator's \$1.5 billion businesses doing? Mixed.

For the past three years its Engineered Systems division, which includes abrasive cleaning systems and air pollution control equipment, has been declining in revenues and earnings. The Chemical & Specialty Products division has been flat. In fact, all

of Wheelabrator-Frye's growth in recent years has come from construction and from the Engineered Components division, which includes water and waste-water treatment equipment, materials handling equipment and industrial fans and blowers. However, this year the components division, which had been the fastest-growing for the past five years, has

Dingman has pulled off a sharp merger at no cost. After all his ax-wielding, the real prize—the engineering companies—cost Wheelabrator less than nothing. That's what savvy management is all about: making hay when the sun isn't shining as well as when it is.

gone flat, too, because of the cutback in customers' capital spending.

But there are also a few bright spots: Wheelabrator's garbage-to-energy business is finally beginning to show signs of paying off. Seven years ago Wheelabrator opened a \$48 million conversion plant in Saugus, Mass. that would burn garbage to produce steam for a nearby General Electric plant. The plant lost money for five

years before breaking into the black in 1980. Rust has begun construction of a \$180 million plant, to be completed in 1984, in Westchester County, N.Y. that will convert 650,000 tons of garbage a year into electricity to be purchased by Consolidated Edison. By the end of next year Dingman says the company will have over \$1 billion worth of garbage plants under construction, to be owned and operated by Wheelabrator-Frye.

Dingman is building materials handling systems that will also be owned and operated for a fee by Wheelabrator. The company already serves some utilities, for example, by transporting coal from the mine to the utility, storing it there until needed and then transporting the coal into the power plant. That requires a great deal of equipment and investment that a utility would as soon not incur.

Wheelabrator has come a long way under Mike Dingman. Its sales have increased tenfold in a decade and net income has grown even faster. Now much of its business has gone flat and much more is still in the developmental stage. But instead of just marking time, Dingman has pulled off a smart merger at no cost. That's what savvy management is all about: making hay when the sun isn't shining as well as when it is. ■

Kellogg's

\$75,000,000 debt restructuring

*The undersigned acted as advisor
and guarantor to Kellogg Company
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Murray Salzberg is risk-averse. He likes to make money without taking chances—and for him it works.

The scrapper

By Thomas Jaffe

YOU HAVE TO KNOW what something is worth if it all goes to pot," confides Murray Salzberg. Meaning? Meaning that you should know your maximum downside risk before you go into something. Salzberg has made a career out of finding deals with almost no downside risk but with considerable upside potential. He learned how to do this decades ago, fresh out of Syracuse University, where he studied business administration. In 1938 he convinced his father, a dealer in scrap iron, to buy an ailing upstate New York short-line railroad, the Unadilla Valley. But rather than purchase the property for its scrap iron the younger Salzberg wanted to try running it. Why not? What was the risk? If he couldn't make money at it, they could get their money back in scrap. As it turned out, under Salzberg the Unadilla Valley was to operate in the black for some 20 years.

Over the past four decades Murray Salzberg has repeated the exercise many times. His profitable deals were very profitable indeed. In fact, Salzberg claims he turned all his railroads into moneymakers. Murray Salzberg grew rich.

He finally grew so rich that in 1966 he was able to go after what may end up the biggest deal of his career—Central Jersey Industries, Inc., formerly the Central Railroad Co. of New Jersey.

Salzberg started to buy Central Jersey bonds shortly before the railroad filed for bankruptcy in 1967. It was the kind of low-risk, high-potential deal he loved. The bonds were a bargain—sometimes as cheap as 25 cents on the dollar—and he figured it would take only four or five years to reorga-

nize the company. No such luck. By the early Seventies it still was running heavily in the red, and no work-out plan was in sight. Then the Regional Rail Reorganization Act of 1973 was passed, effectively letting the giant Penn Central and other busted northeastern roads off the hook. In order to create Conrail, the government agreed to buy practically all the



Chairman Murray Salzberg of CJI
Just an old railroader?

lines' working rail operations and postpone many of their debts.

In 1979 CJI was born from Central Jersey's assets. Salzberg's bonds were turned into 15% of the new entity's 2 million-odd shares of common stock, and he became its chairman.

Like other postbankruptcy railroad shells—Reading and Penn Central—CJI is loaded with cash (some \$30 million), over 500 acres of real estate (worth an estimated \$10 million or more), around \$84 million in tax-loss carryforwards and hardly any debt. CJI also has a claim on property con-

demned and then bought by the state of New Jersey in the mid-Seventies. New Jersey paid CJI \$7.3 million for the land, but CJI says it is worth \$20 million if zoned for residential rather than industrial use. If the matter is settled in favor of CJI, the company will pick up the difference plus interest dating back to the property's original transfer. That could be another \$13 million.

The U.S. government, still CJI's controlling shareholder, presents a problem. As the bankrupt rail's leading creditor (*FORBES*, June 9, 1980), it received 24% of the common stock at the time of reorganization. The Treasury Department currently is studying ways to dispose of this interest; meanwhile the government is being sued on behalf of the company and its noteholders for underpayment in the transfer of all those rail assets in the Seventies.

Salzberg's critics fault him for not making acquisitions so as to put CJI's tax credits to work. Salzberg claims he is shopping; but in fact conglomerating is not Salzberg's style—too much downside risk. "I honestly believe they have no intention of taking over someone else," says John Kneafsey, a bankruptcy specialist for Bache, Halsey in Baltimore. "This is a setup for being taken over."

By waiting, Salzberg isn't exactly harming the company's future. Simply by rolling over certificates of deposit, the cash will continue to increase. When the market improves, a parcel of real estate can always be sold, such as a 140-acre tract in Elizabethport, N.J. across from Newark International Airport. Then there is the prospect of more money coming in from the dispute with the state of New Jersey. And the proceeds from the valuation case against the government will erase much of the remaining debt. So Central Jersey Industries could end up with an almost clean balance sheet plus all those tax-loss carryforwards, which don't expire until the 1990s.

CJI shares recently traded for \$20 on the Philadelphia Stock Exchange. On a per-share basis that's only \$5 more than the cash *already* in the company. At Kneafsey's conservative estimate, CJI is worth up to \$35 a share. This would make Murray Salzberg's original investment, less than \$2 million, worth \$10.5 million. Says Salzberg with a smile: "I'm just an old guy from the railroad game. Maybe these Wall Street fellows never heard about me before. But you can bet I'm going to get every dollar out of this I can." And without any real risk. ■

Profiles

Roger Hardesty is to rental apartments what McDonald's is to dining out. That's why he's worth \$150 million at age 44.

Fastest builder in the West

By Jonathan Greenberg

SCHOOL WAS BORING; I didn't like the regimentation," says Roger Hardesty with a wave of his hand, flashing a 6-carat diamond ring and a diamond-studded Rolex watch.

"I was 15, got married and left the farm for Oklahoma City," Hardesty recalls, his feet resting on his desk. "I drove a milk truck, but a drunk ran into me and I lost my job." Hardesty, 6-foot-4 and 240 pounds, moved to Tulsa and poured concrete. He soon got tired of working for someone else. "I had to do something a little more

than finish houses," he says.

Hardesty talked a local mortgage broker into lending him \$75,000 to build five single-family homes in 1959. He worked seven-day weeks and sold the homes for \$90,000. Hardesty moved on to low-cost, two-story apartments—in a big way. He has put up 12,000 multifamily units in 16 states and still manages most of them. Coupled with shopping centers and commercial developments, that provides the basis for his \$150 million fortune.

Perhaps because of his humble background, Hardesty was visionary enough to see a solid market. His

apartment complexes in fast-growing Sunbelt communities create a dormitory-like environment for young couples and singles at monthly rentals of between \$300 and \$450. "We have units people need and can afford," he explains. "No luxury, no monuments. We build for the masses."

Hardesty, 44, also builds fast—very fast. He claims he can put up a 500-unit community in just six months, while most developers would take three or four times as long. With construction loans at 17%, that means big savings. Hardesty Co. motivates construction crews with "piecemeal" incentives—which require nonunion labor. "We've got carpenters that can earn \$75,000 a year," Hardesty explains. His kid brother, Butch, supervises construction and keeps productivity high. "When you work for Butch you work from sunup to sundown," says an associate.

With his reputation as an efficient, dependable developer, Hardesty has become a popular real estate syndicator. Institutions, he says, "are unwilling to put up the funds they should for the portion of ownership they demand." Instead, he deals with limited partners, takes their money in chunks of \$50,000 and up and keeps 20% to 40% of project equity for himself. Hardesty makes money every step of the way. Last year, his pretax income included \$6 million in construction profits, \$3 million in management fees and \$3 million in rent.

Hardesty has won the respect of Tulsa's business community, but although he maintains a luxuriously appointed personal Boeing 727 he's no social climber. "Roger's not the country club type," says Bill Friman, a mortgage banker and longtime friend. "He's still a farm boy with stamina beyond that of normal men. He doesn't mind going to Wichita, Dallas and San Antonio all in one day." Summers, Hardesty returns to Oklahoma to harvest the family wheat crop. He has also been known to settle job-site disputes with his fists.

Right now he is building a 1,000-room hotel adjoining the City of Faith Hospital Center run by evangelist Oral Roberts. To diversify, Hardesty has a management contract for the facility as well. He won that assignment over Holiday Inns and other chains when he agreed to Roberts' mandate that no alcohol be served. Hardesty, a Southern Baptist with two children, says he and Roberts have a great "business relationship"—and he doesn't seem bothered by suggestions that he attend church more often. ■



Roger Hardesty, Oklahoma farm boy turned builder

"No luxury, no monuments. We build units people need and can afford."

Getting to market first with new products has brought success but not security to Royal Crown Cola. Hi, there, Victor Posner!

Uneasy sits the crown

By John A. Byrne

Poor Royal Crown. Every time the \$450 million (sales) soft drink company comes up with a new idea, the bigger kids on the block muscle their way in and steal RC's thunder. Royal Crown was the first to make a one-calorie soda that didn't taste like cough medicine: Diet Rite. That triggered a host of imitations, notably Coke's Tab and Pepsi's Diet Pepsi. RC then beat its giant rivals to the punch in adding flavors to its product line. And guess who was the first to market soda in a can successfully? Royal Crown, of course.

Now it's caffeine-free soda. RC was first out of the gate in 1980 with RC 100, a caffeine- and sugar-free cola. It was so successful that RC launched a caffeine-free, sugared version earlier this year. But RC's success prompted Philip Morris' Seven-Up Co. to begin test marketing Like, a caffeine-free, sugared cola. Then, PepsiCo Inc. revealed it would begin marketing this month two similar versions of caffeine-free cola called Pepsi Free. And Coca-Cola Co., the industry leader, may be next if it reformulates its diet cola Tab as some expect.

RC 100's success and the sharp decline in sugar prices helped Royal Crown post a 53% rise in net last year, to \$15.5 million, followed by a jump in first-quarter earnings so far this year of 40%. Those results, along with financier Victor Posner's newly accumulated 17.6% holding in Royal Crown, pushed the stock up nearly 50% since September, to about \$19 per share. Result: RC, the perennial loser in the cola wars, trades at the same multiple as its bigger, stronger rivals, even though its return on equity of 11.5% pales

in comparison with Coke's 22.8% and Pepsi's 22.5%.

But how long will the good times last? RC Cola, the company's main soft drink, has fallen from fifth place, with 3.3% of the market in 1976, to ninth place, with 2.5% of the market last year (see chart). The company's Nehi line of flavored drinks also has been losing market share.

It's not that RC doesn't spend the big bucks. Last year, for example, RC spent nearly 50% more on advertising for each case of its cola—3.85 cents—

than either Coke or Pepsi. But its total estimated budget of \$6.5 million to promote RC Cola is a drop in the bucket compared with Coke's \$40 million or Pepsi's \$31 million. It's a problem of critical mass. RC has never achieved it.

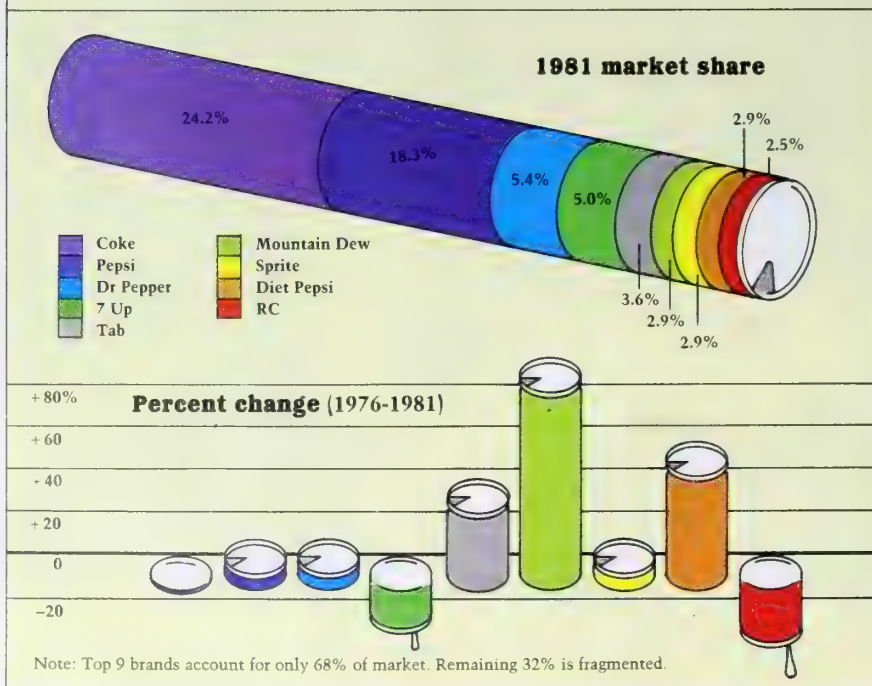
An even trickier problem is RC's network of 250 bottlers and 6 company-owned plants, which is no match for the competition. Because bottlers typically are allowed to produce only one cola, Coke and Pepsi tend to get the more enterprising and better-managed franchisees. RC gets what is left. "You can always tell the RC bottlers at the soft drink conventions," says one independent soft drink manufacturer. "Ill-fitting, checkered sports coats and mismatched pants. We think their days are numbered."

Indeed, when Beatrice Foods, RC's largest franchised bottler, had the chance to pick up a Coca-Cola franchise in Los Angeles earlier this year, the company quickly ditched its RC operations. Who could blame it?

These harsh realities prompted RC's boyish-looking President Donald A. McMahon to diversify one year after leaving Baker Industries to take over as chief executive in 1975. While shutting down the 7 losers among RC's 13 company-owned bottlers, he

Soda scorecard

Helped by huge advertising, Pepsi's line, including Diet Pepsi and Mountain Dew, Coke's Sprite and Tab, and Dr Pepper all showed respectable gains in market share over the last five years. Only 7UP, badly bruised by Sprite and Mountain Dew, suffered as much as little RC.



stepped outside the industry and for \$18 million acquired Arby's, a fast-food chain with 1,179 outlets. Unfortunately, he picked an industry with a market every bit as crowded and ferocious as the one he was already in. It was a case of jumping out of the frying pan into the fire.

Unable to attract franchisees in the quantity he had hoped, McMahon went for company-owned outlets that, along with the original cost of the acquisition, raised Royal Crown's long-term debt from less than 4% of capital to nearly 38%. Still, the company couldn't afford to expand as rapidly as it had wanted.

Arby's was slow to expand its menu beyond reconstituted roast beef sandwiches, trailed its competitors in ex-

Because bottlers typically are allowed to produce only one cola, Coke and Pepsi tend to get the more enterprising franchisees. RC gets what is left. "You can always tell the RC bottlers at the soft drink conventions. . . . Ill-fitting checkered sports coats and mismatched pants."

panding overseas and still doesn't offer a breakfast menu to squeeze more sales out of each unit. No wonder would-be franchisees preferred a Church's, Taco Bell or Wendy's—three once-smaller chains that have surpassed Arby's in total sales since RC's acquisition.

Royal Crown's brightest prospect remains its caffeine-free colas. The company expects to sell roughly 40 million to 50 million cases of RC 100 and decaffeinated RC this year—a hefty portion of its total 249-million-case output in 1981. But RC 100 is about to be clobbered. PepsiCo already has said it will spend \$10 million to market, promote and advertise its two caffeine-free colas the first year in just eight test markets representing 10% of the national market. Compare that with RC's total advertising budget of under \$12 million last year for all its products.

Meanwhile, there's Victor Posner, who reportedly may increase his stake in RC from 17.6% to 25%. What's Posner's game? Most likely, Posner is hoping a well-heeled consumer goods giant will buy RC as an entry into soft drinks—as Procter & Gamble did with Crush International in 1980.

A long shot any way you slice it, Victor. ■

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Dr Pepper doesn't want to get out of the soft drink business. It just wants to avoid the tough competition when it can. That's why it bought Canada Dry.

Adding a dash of risk

By Barbara Rudolph

DR PEPPER, with its old-fashioned fruity soda, used to prosper as a big fish in a little pond. It carved out a position as a leader in the so-called flavor category, avoiding the expense of tackling Pepsi and Coke. A decade ago share prices soared, as Dr Pepper moved into new markets. No wonder—the Dallas-based company was growing three times as fast as the overall soft drink market.

These days, Dr Pepper, like other soft drink makers, is effervescing on Wall Street, but its days of easy growth and geographical expansion are over. Profits, \$29 million last year on sales of \$364 million, used to double every five years, but they are up only 45% since 1977. W.W. (Foots) Clements, DP's cigar-chomping, bushy-browed chairman, faced a clear choice: Grow slower or try something new.

Instead of diversifying, however, Clements sought to expand on his strengths. In 1979 he tried to buy Crush, the orange soda company, but lost out to Procter & Gamble. In 1981 he acquired Welch's, a small maker of fruit-flavored soft drinks. But last February Clements got "the company we'd been courting all along—Canada Dry" from Norton Simon for \$155 million, or 5 times 1981 earnings.

That means Dr Pepper's fundamental plan is unchanged. Like Heileman in the beer business, the company aims to use a phalanx of specialty brands to keep it out of the national marketing battle. "Let Coke and Pepsi—and now Philip Morris' 7UP—go at each other," says DP's President

Chuck Jarvie, as he bangs his fist into the palm of his hand. What Dr Pepper wants is a bigger piece of the noncola business. Canada Dry, with sales of around \$157 million, will do that and provide a toehold in the fast-growing international market.

It's a classic strategy, but it had better work the way the book says, because DP has chosen a tough time to move. DP borrowed \$105 million



Dr Pepper's Chuck Jarvie and Foots Clements

A bubbly union that produces everything but cola.

to make its acquisition. Annual interest costs will amount to more than 30% of 1981 operating income. Meanwhile, the glory days of 1980, when Dr Pepper edged past 7UP for the number three soft drink spot, seem long ago. Profits were virtually flat for the first half of 1982. And for the first time in 20 years, DP is losing market share in the crucial food store arena—down from 3.8% to 3.5%.

DP's hope, of course, is that Canada Dry will improve performance. For starters, DP will have a lot more soda to sell—99 brands instead of 4, and an

11% share of the market instead of 7%. Canada Dry's ginger ale, club soda and tonic are market leaders, too. They appeal to older consumers, unlike Dr Pepper, which is largely a teenagers' drink. In addition, Canada Dry is strong in the Northeast, Dr Pepper's weakest market.

Most of all, Canada Dry, which is sold in 91 countries, offers the prospect of foreign profits. Its brands are not especially strong overseas, but its bottling network gives Dr Pepper a much-needed foothold. The company's sweet soda has always been an acquired taste. So foreigners are likely to be tough customers.

So much for the potential—but Canada Dry will not be bubbling over with cash flow anytime soon. That means Dr Pepper must fall back on its "mother brand" just when sales are slowing. Here's where the 45-year-old Jarvie comes in. His assignment is to improve relations with bottlers. Since Dr Pepper isn't considered a cola, the company can use Coke and Pepsi franchisees. That has been a traditional strength, but Clements admits his bottler relations need a boost now.

"We'll help with local ad campaigns, vending machines, graphics—all those things you do in Marketing 101," Jarvie says. In 1980 Clements brought him in from Procter & Gamble, and his button-down, business school style contrasts dramatically with that of his down-home boss, a former route salesman. "It could be classic sparksville around here, combining the young charger and the old veteran," says Jarvie with a smile, "but it's just not."

His first goal is turning around food store sales. Not only has its share fallen, but the company gets only 37% of its revenues there, compared with an industry norm of over 55%. In supermarkets today Dr Pepper also faces heavy discounting from Coke and Pepsi.

So far, Dr Pepper has avoided discounting, which may be a mistake. "They have to play that game if they want to show unit growth," says First Boston's analyst Martin Romm.

In the Sixties and Seventies, Dr Pepper's approach to the soft drink was just the right mix. Whether its devotion to special flavors will continue to pay off in an age of price-cutting and ever-higher marketing costs is another question. Clements and Jarvie are betting on more of the same, but buying Canada Dry raised the stakes dramatically. ■



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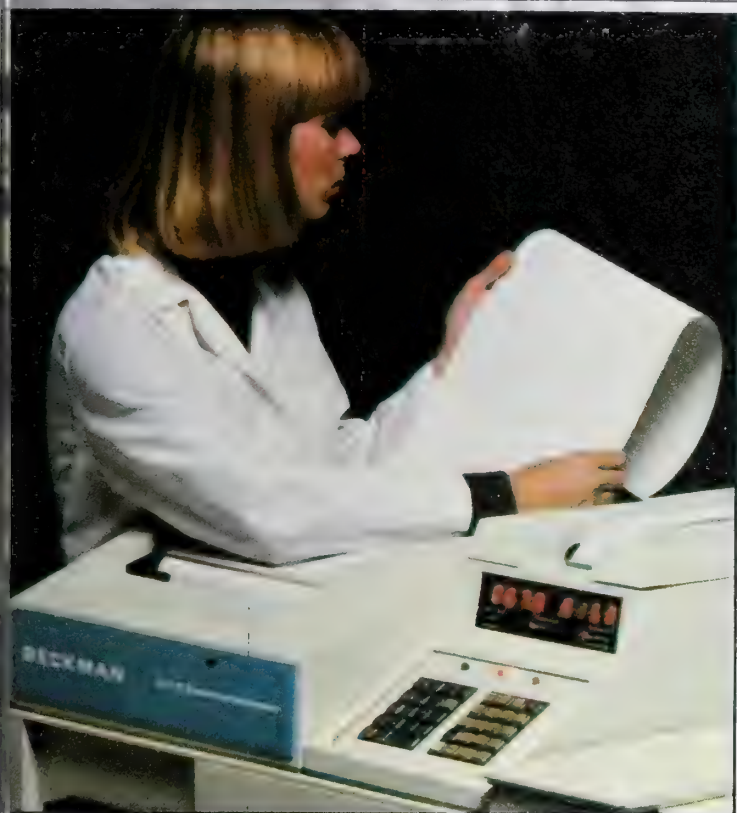
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Southern Pacific Co. has vast assets and a strong foothold in a great growth industry. But neither strength may save it. The SP needs capital—and the capital just may not be there.

Doomed?

By James Cook

IT IS SIMPLE common sense. You don't need a Wharton finance degree to grasp the principle: A capital-intensive company with an inadequate cash flow should never, repeat *never*, diversify into another capital-intensive business. That will only compound the problem. Short of cash before, you are now twice short. Yet that is precisely the trap management fell into at San Francisco's \$5.5 billion (assets) Southern Pacific Co. The result is that this giant enterprise now has the worst of two worlds, and some analysts are privately speaking of it as "a potential Penn Central." Inconceivable for a company as rich as this one? Here are the facts.

To begin with, SP's 13,740-mile railroad operation lost money in the first quarter—\$16.4 million on a 13% drop in carloadings. Superficially there is nothing much wrong with that. A dozen other marginal carriers also lost money—the Milwaukee, the Illinois Central Gulf and Chicago & North Western among them. But Southern Pacific never used to be numbered among the U.S.' marginal railroads. Chairman Benjamin F. Biagini responded by laying off 1,465 employees and cutting expenses by an estimated \$43 million a year, and though second-quarter carloadings were down nearly 20%, Biagini succeeded in nudging the railroad's second-quarter net \$1 million back into the black, leaving a first-half

loss of more than \$15 million.

The railroad was only part of it. In the first half of this year, the parent company also lost money in trucking (\$9.4 million) and in title insurance (\$3.7 million). Aided by the \$24 million it got from the sale of some tax credits, SP managed to report a \$26.4 million profit for the first half—a drop of over 60% compared with last year.

ted a mere 0.5% on its return on investment, compared with the industry's average of 4.1%.

"The financial performance of the Southern Pacific railroad during the 1970s concerns us," Biagini told the Interstate Commerce Commission a while back. "During that decade we experienced little growth in physical volume, and our income declined. At

Short hauls and long

It costs more to gather traffic than it does to move it, which is why railroads like to distribute those costs over as long a haul as possible. That's why Southern Pacific often moved eastbound traffic the long way over its own lines to St. Louis sooner than turn the traffic over to connections at Ogden or Tucumcari. And why two years ago SP decided to acquire the Rock Island's Tucumcari line to the east.



Like Penn Central before it, the Southern Pacific has been slowly starving for lack of business. In a decade its share of the western railroad market has declined from 20% to less than 13%, its pretax profit margins narrowed sharply. Last year, in fact, the railroad earned \$78 million before taxes (excluding the sale of tax credits), and, as the ICC calculates it, net-

the same time, Union Pacific and Santa Fe, our primary competitors, have had substantial increases" (see chart).

Clearly SP's management knew it had a problem. For generations the company attempted to reduce such problems by diversifying into other businesses related in one way or another to transportation—trucking, pipelines, real estate. In recent years,

however, it has begun to diversify at random, without considering how these other businesses would function within its overall corporate framework. The \$280 million acquisition of Ticor and its title insurance business is the obvious example—an acquisition that only enlarges SP's exposure

in housing, which is the railroad's number one market. Telecommunications is no better. That business is as thirsty for capital as the railroad is—a potentially disastrous situation in a period when the U.S. faces unprecedentedly high interest rates and a continuous shortage of capital.

Not that the prospects in telecommunications aren't intoxicating. They are. Southern Pacific Communications Co. is a long-distance telephone system that competes, like MCI, head-to-head with AT&T. After piling up over \$100 million in pretax losses, it broke decisively into the black last year, with a \$34 million operating profit, and then reported \$37.1 million in the first half, up from \$12.8 million last year. Altogether, SPCC posted only \$235 million in revenues last year. But Biaggini predicts that by the end of the decade SPCC could be producing half of Southern Pacific's revenues—and at last year's levels, that would be over \$3 billion a year.

SP only gradually found out what it wanted to do in telecommunications. It started out in the Sixties with a microwave communications network to replace its old telegraph system and then in 1970 began leasing circuits, as a specialized common carrier, to business customers. That original idea was doomed, but in 1978, when MCI succeeded in prying open AT&T's long-distance telephone business to outside competition, SPCC had the rudiments of a nationwide telecommunications network already in place, saw the opportunity and created Sprint, a low-cost, private long-distance telephone service of its own.

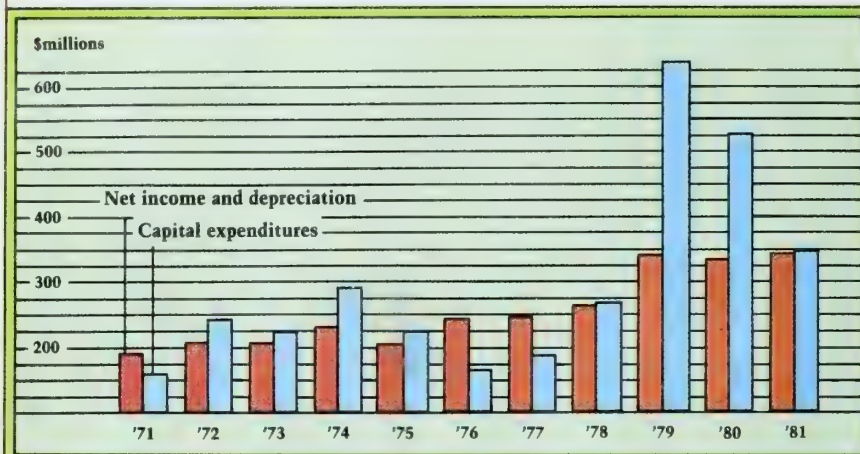
With 250,000 customers, SPCC is about half the size of MCI, but the \$40 billion long-distance telecommunications business is growing at 10% to 15% a year. SPCC is not only catching the basic growth, it is enlarging its market share by aggressively undercutting AT&T's rates.

Unlike MCI, SPCC is moving into the satellite business as well. In 1984, at a cost of \$200 million, it will loft two satellites into space, one designed primarily for cable television, the other for general services—data transmission, teleconferencing, video transmission, facsimile. SPCC will keep 20% of the satellites' capacity for itself—to expand its Sprint capacity nationwide and to open up new opportunities like electronic mail. The rest will go to outsiders—cable television operators, the Catholic Church, Vitalink Communications, the Southern Baptist Convention. By 1984, when the satellites go into orbit, SP could be generating close to \$150 million in satellite revenues, netting maybe \$30 million a year before taxes.

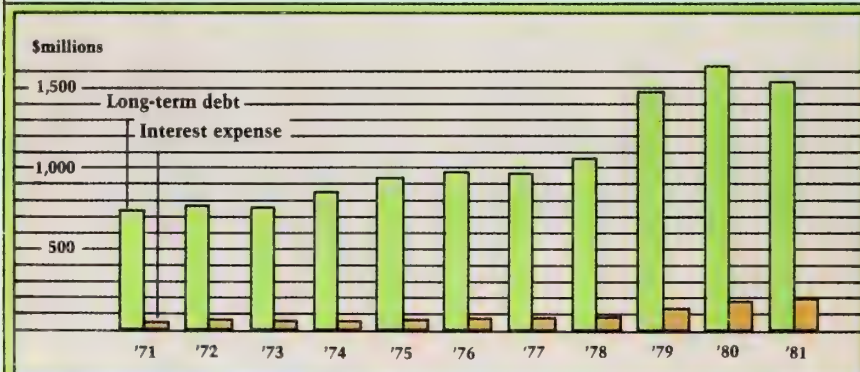
So far so good. But whether Southern Pacific will ever be able to realize this potential is an open question. The problem is money. Telecommunications normally requires \$1 to

Less from more

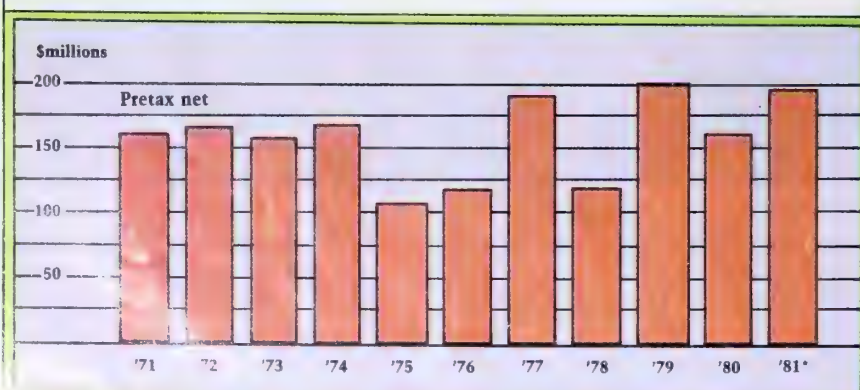
In most years in the Seventies, Southern Pacific failed to generate enough cash flow from earnings and depreciation to finance the heavy capital spending programs required by its diversified operations.



So it borrowed and borrowed and borrowed. Its outstanding debt nearly doubled, while its interest charges nearly quadrupled.



End result: SP's pretax net has stagnated for most of the decade.



Source: Standard & Poor's

\$2 in capital to generate \$1 in revenues. Thus, to realize its communications ambitions, SP will need to generate considerably more than \$3 billion in capital over the next eight years. From where? Good question. Over the past decade, SP's cash flow (net income plus depreciation) has totaled only \$2.6 billion. Last year it fell over \$75 million short of covering SP's capital and dividend outlays.

As the Santa Fe reminded the ICC during some recent merger proceedings, "Southern Pacific's already heavy debt load and inadequate net income threaten its bond rating and its ability to raise necessary additional capital." Thus, what capital it can commit to telecommunications can hardly fail to come at the expense of the already faltering railroad, and that's what's happening. SPCC absorbed 11% of SP's capital expenditures in 1980, 26% in 1981, 40% this year. So, in a sense, disinvestment has begun.

Lest it be forgotten, it was lack of investment that helped bankrupt much of the U.S. railroad system in the East and Midwest. What brought the West's proud Southern Pacific Co. to such a pass? Poor management in part, circumstances in part.

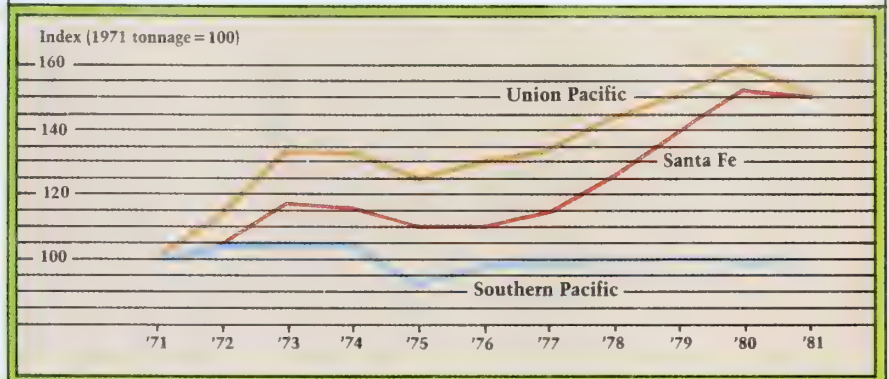
For one thing, SP just didn't get the traffic. Union Pacific and Santa Fe cashed in on the Seventies booms in coal and grain traffic, while Southern Pacific, by virtue of its geography, by and large sat out both of them. Meanwhile SP's traditional traffic strengths began to deteriorate. The Rock Island, one of SP's major connections to the East, was slowly sinking into bankruptcy, and, as it did, SP's eastern traffic connections weakened. Then, too, trucks whittled away at SP's higher-profit merchandise traffic and drove SP out of its once basic fresh fruit and vegetable traffic entirely. Canadian spruce and southern pine captured eastern markets formerly held by Oregon and northern California lumber, and the West Coast auto market was the first to be exposed to the effect of Japanese imports.

A more basic problem was SP's California stronghold. In the Seventies California's economy became self-contained and its population growth slackened off. As against 40% in the Fifties and 25% in the Sixties, population growth in the Pacific Coast region slowed to 19% in the Seventies, a prospective 5% in the Eighties.

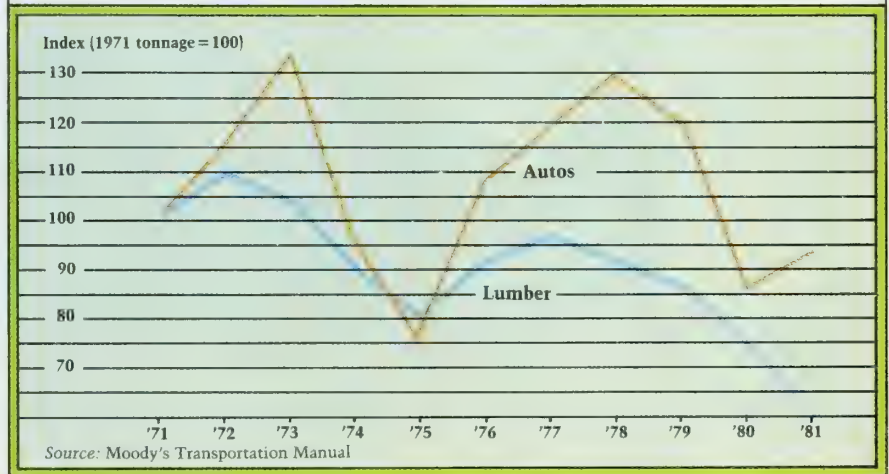
"In this inflationary economy," says Isabel Benham, president of Princeton, Kane Research and probably the U.S.' most astute railroad consultant, "if you don't have traffic growth, you're going to stand still or go back-

Growth and no growth

During the Seventies, Southern Pacific lacked the booming traffic growth that brought prosperity to Union Pacific and Santa Fe.



Auto and lumber traffic normally provide a quarter of SP's revenues and, as the recession deepened, both slowly dwindled away.



ward. That's what happened to Penn Central. The same thing could happen to Southern Pacific."

Southern Pacific admittedly has tremendous gathering power in California, originating as much as 50% of the state's rail traffic, but in the railroad business these days that isn't enough. You need long-haul traffic to justify the cost of originating traffic, just as Penn Central did to justify its huge terminal costs in the East, and Southern Pacific has been hard put to obtain it. SP had to choose between handing eastbound traffic over to Union Pacific at Ogden, Utah, and to the Rock Island at Tucumcari, N.M. or getting the long haul over its 400-mile longer route to St. Louis (see map, p. 57). Whenever it could, SP chose the latter, routing its eastbound traffic through Corsicana, Tex. onto the lines of its St. Louis Southwestern subsidiary.

Such a strategy may have made sense during the Sixties, when fuel costs were still low, but in the Seventies, when fuel costs mounted ninefold, it was little short of madness to use the longer route. Kidder Peabody's

rail analyst Henry Livingston explains: "SP's route into St. Louis is 400 miles longer. There is no way they could up the freight rate to even approach the kind of money others could make who have the shorter route."

For nearly two decades, Biagini tried to reduce the problem by extending SP's reach. He tried to buy the southern half of the Rock Island as part of a Union Pacific-Rock Island merger. When that fell through, he tried to acquire the Rock Island's 965-mile Tucumcari line instead. "Gee," SP's former policy strategist John Williams gasped at a private DOT dinner, "if we don't have this [Tucumcari line], we are, you know, we are going to get out of the railroad business, we are not going to make it." Remarkably, both the Justice Department and the Department of Transportation agreed. "The Southern Pacific faces a risky financial future," one DOT study concluded, "and if the proposal is disapproved, it is possible Southern Pacific management will begin to disinvest," and, another DOT study added, "with eventual bankruptcy a possible outcome."

The Tucumcari acquisition was expected to save 9.8 million gallons of fuel oil a year, \$33 million in expenses, and generate between \$33 million and \$140 million in revenues, depending on who made the estimate. It didn't pan out. SP spent \$57 million to acquire the line, another \$97 million upgrading the 545-mile section from Tucumcari to Topeka. But by then the capital shortage had begun to mount. SP deferred spending the additional \$97 million needed to upgrade the presently inoperable section between Kansas City and St. Louis. So the traffic moved over the rival Missouri Pacific instead. The Tucumcari acquisition not only failed to achieve the strategic objective of providing single-line service between Los Angeles and St. Louis, it revealed just how straitened Southern Pacific's financial circumstances had become.

Everywhere Biaggini turns there is clamor for money. Since 1978, for example, SP has spent over \$900 million on roadway and equipment, yet increased its railway operating income a mere \$5 million. Says Isabel Benham: "They've spent this money and they've not gotten a return on it, because the volume isn't there and the territory doesn't provide the volume."

Putting a good face on these ominous trends, Biaggini is counting on a resurgence in traffic to put the railroad and the company back on their feet again. But increasingly that comes to seem like a vain hope. SP never fully recovered from the 1975 recession—the traffic, once lost, didn't come back—and this time the changes in the market look even more radical. U.S. automakers have closed all five of their California assembly plants, permanently, so autos are unlikely to come back completely. Lumber may not come back all the way either. Interest rates remain relatively high and housing starts low, and it's not inconceivable that Americans will start rethinking their expectations in housing just as they have in autos. California's growth prospects are even dimmer in the Eighties than in the Seventies, which may be portentous for all western railroads.

Time is running out on the SP. If Union Pacific succeeds in pulling off its Missouri Pacific-Western Pacific merger—and hardly anyone doubts that it will—Southern Pacific faces an additional threat: the loss of as much as \$100 million in revenues. The UP threatens the SP from one end of the system to the other, but the biggest threat is to SP's central corridor between Ogden and the West Coast. "If the merger is approved," SP says flat-

ly, "it is quite likely that the southern corridor will survive as SP's only viable profit center."

Meanwhile, SP's financial condition continues to deteriorate. Over the decade its long-term debt has nearly doubled, its fixed charges quadrupled and, as its debt ratio swelled from 27% to 34%, the coverage on its long-term debt has narrowed from 4.8 in 1971 to 2.6 last year.

To plug the gap, SP has been liquidating some of its assets. Over the past three years it has stepped up its annual property sales from \$50 million to \$83 million. Last year it tried to sell off 115,000 acres of timber and other lands in northern California but withdrew the offer when the bids proved too low. In May it sold its

SP's assets may be worth \$500 a share. But those are theoretical values, and it would take a more imaginative management than SP has had to realize them.

moneylosing Distributed Message Systems to 3M. Now it's planning to sell its Ticor title insurance subsidiary's \$2.8 billion trust operation—for an unspecified amount—to California Federal Savings & Loan.

The railroad has had a working capital deficit for several years. The company overall has been cutting capital spending. Its common stock dividend, currently costing it \$70 million a year, will almost certainly have to be cut. "If they want to be retiring debt instead of refinancing it," says Mary DeSapio, Lehman Brothers Kuhn Loeb's rail analyst, "they should be conserving cash."

Over the next five years SP will have to refinance a large part of its more than \$750 million in maturing debt—close to half the total outstanding—and do so at rates two, three and four times as high as the debt it replaces. Last year, for instance, it retired some old debt at 4.5% interest, and took on new at 8.5% to 21%.

It is true that Southern Pacific has enormous assets—land and resource holdings worth, according to one analyst, as much as \$500 a share—but those are theoretical values, and it would take a more imaginative management than SP has had over the past two decades to realize them. And even if SP had the talent, this is probably not the time to make a big play in oils, minerals or land.

SP's telecommunications business theoretically has other options. With its common selling at 20 times earn-

ings, rival MCI expects to be able to finance its expansion with convertible debentures. But that's a route closed to SP, whose stock normally sells around 5 times earnings. Biaggini could, of course, try to realize more of SP's true value in the market by getting rid of the railroad, as Northwest Industries did a decade ago and as Illinois Central Industries has wanted to do for a decade. But it's one thing to want to sell off your railroad, quite another to find someone to buy.

Biaggini could spin off SPCC, in whole or in part, and create a separate subsidiary, with separate financing, just as the telephone company has. Such a move seems inevitable sometime in the next few years, but it is far from clear that Biaggini could find the will to do it. More likely an outsider will have to come in and do the job for it, as Natomas once considered doing.

All this poses a painful dilemma for Benjamin Biaggini—how to meet the corporation's overall capital needs without stinting on the railroad. He was born and bred in the railroad tradition. His father worked for the Pullman Co., and Biaggini himself went to work for SP back in 1936. He started as a rodman, in the industry's best up-from-the-track-gang tradition. His once reddish hair has gone white, his face is furrowed, but he's still an imperial presence, a towering monolith of a man, with a personality to match—every inch the traditional railroad boss. Since he took over as chief executive in 1968, nobody has doubted who was boss at Southern Pacific, and nobody does now. According to some observers, this imperiousness doomed Biaggini's much-cherished ambition to merge SP first with Seaboard Coast Line and then with Santa Fe Industries.

SPCC does have one ace in the hole: its long-pending antitrust suit against AT&T, which went to trial last May. MCI won a similar suit a couple of years ago, and though most observers expect that to be struck down on appeal, SPCC may have a stronger case—and one that is being tried in a court likely to be sympathetic to the underdog. "You could call it an anti-AT&T court," says Bear, Stearns litigation specialist Calvert Cray. A favorable decision could conceivably yield triple damages of upwards of \$1.2 billion. SPCC and Southern Pacific could go a long way on that. But that's a long shot.

"There are companies that time runs out for," one observer reflects. Given the unwisdom of its diversification decisions, SP's slide may be irreversible. ■



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CE COMBUSTION ENGINEERING

The Energy Systems Company

Merrill Lynch was all set to sell resort time-sharing units—but nobody wanted to buy.

Sometimes the customer keeps his yacht

By Carol E. Curtis

IF ANY RESORT IS IDEAL for vacation time-sharing, it is the Palm Springs Tennis Club. Suites with designer furnishings are clustered around 11 championship tennis courts, 2 swimming pools and 3 Jacuzzis—all in the heart of California's most exclusive desert community.

Merrill Lynch was sufficiently bullish to issue a \$16 million prospectus last April and turn its herd of brokers in nine states into would-be condominium salesmen. The idea was beautiful. Even though time-sharing demand was exploding, marketing costs typically took 35% of revenues. At the Tennis Club, however, one week of vacation time was priced at up to \$11,400, with \$1,026 going to Merrill Lynch. That's a high split for Wall Street, but low for the real estate crowd.

No matter. After three months of trying, Merrill Lynch failed to close on a single time-sharing unit. The firm pulled out of the project in July, handing the marketing of the Palm Springs resort back to its owners, a Los Angeles-based real estate partnership. "Our move was an economic decision," says Frank Lavin, an associate with Merrill Lynch's real estate syndication group. "We just quit."

Indeed, the biggest problem may have been that the broker's customers have unusually sharp pencils. For the cost of buying one week at Palm Springs—plus \$322 in annual maintenance—would-be customers could invest in tax-free municipal bonds at 13%, pay cash to rent the same suite at current rates and save almost \$400 a year. "Our pricing was a little high," Lavin admits. "Your aftertax return just doesn't make any sense."

Now, however, even firms that are not selling time-sharing as an investment are running into trouble. "No one among the large players is on the kind of growth track they were," says a spokesman for one of the industry's five top companies. For example, sales are down at American International Vacations, Inc., though the firm will not say by how much. One big company, Sanibel, Fla.-based Captran Resorts International, filed for bankruptcy in July.

One reason is that the collapse of condominium sales has prompted many hard-pressed developers to turn condos into time-sharing resorts. This has created a glut of projects. In 1981 there were 600 time-sharing resorts in the U.S. This year there are expected

to be 825. That adds up to 5,000 more units to sell, which translates into 250,000 more weekly sales.

Despite this oversupply, other marketers still see profits at the end of the time-sharing rainbow. Since March, Thomson McKinnon Securities Inc. has had several of its brokers in Florida selling time-sharing at resorts owned by Fairfield Communities, the industry's largest developer. Total sales to date: one.

Coldwell Banker, a Sears, Roebuck affiliate, is more ambitious. Its Atlanta headquarters has hired 28 real estate professionals and has equipped them with portable TVs as part of an in-house marketing campaign. If sales go well, selling through Sears stores is a possibility. Coldwell is banking mostly on middle-class customers—the kind likely to finance the purchase rather than pay cash.

"The economics can be sound," says W. Ward White, a spokesman for American International Vacations. "I'm talking about individuals who vacation at a regular time—blue-collar people and white-collar up to middle management."

Perhaps. But time-sharing has an important drawback even for people who don't analyze decisions with a sharp pencil. There are none of the psychological benefits of conventional second-home purchases. Americans clearly enjoy owning a place in the sun. With time-sharing, on the other hand, there's the prospect of being a perpetual tenant of a poorly managed hotel. ■



Pool and tennis courts at the Palm Springs Tennis Club

Rent a suite, buy tax-free bonds and save almost \$400 a year.

MALAYSIA 2001

When the 1982 recession sent the world's richest nations scurrying to Versailles for an urgent summit, the 14-million people of Malaysia prepared for the upturn with almost disturbing calm. Their optimism in the face of the falling prices of commodities — upon which their economy has long rested — was based on 25 independent years of growth which was barely marred even by the successive oil crises. Nor was the democratic processes of government affected by a communist insurgency which tried to strike at the economic base: on the contrary, Malaysia's is a unique record of having not only defeated militant communism but having simultaneously diversified its plantation and mining economy to become an important manufacturing center.

Even the raging wars in Indochina did not dampen the mood, and GDP grew at 7.8 percent per annum in real terms during the decade of the 1970's, with the second half (1976-1980) showing a rise to 8.6 percent. This was the period of greatest loss of confidence for investors in Southeast Asia as the idea of nations falling like dominoes before communist armies had the highest currency in Europe and the U.S.

But in Malaysia the economy actually expanded, with per capita

AN INVITATION TO BE COMPETITIVE

income growing by 4.9 percent and unemployment reducing from 7.8% in 1970 to 5.3% in 1980. Private and public sector investment in real terms grew at 12% and 12.6% per annum respectively, while exports expanded 7.6% p.a. The rate of inflation, while the world reeled under double digit pressures, averaged at 5.9%. Today it is 7%.

The decade of expansion was notable for not only raising living standards but careful planning to upgrade the original primary industries infrastructure to a network of communication lines and other inputs so that by 1980 Malaysia was ready for the great take-off into a manufacturing economy. Indeed in 1982, for the first time in its history, agriculture will lose its place as the leading sector of the economy, and manufacturing is projected to grow at 11% p.a. During the current five year plan (1981-1985) involving a total investment of US\$46 billion, more than US\$34 billion or 72.2% is expected to be met by the private sector.

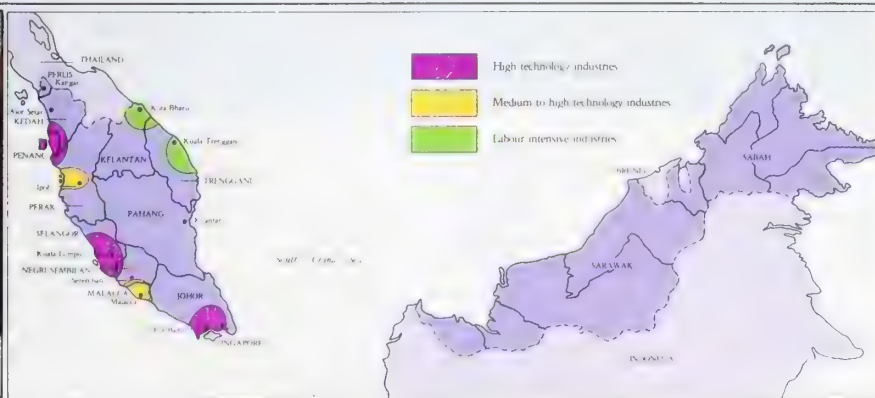
"We are offering investors an opportunity to be competitive in the future. And we feel that by coming to Malaysia they will have an edge over quite a lot of other people — as those who have been here have found out". — Dr. Mahathir Mohamed, Prime Minister.

Economic Growth

Malaysia's economic growth can be puzzling (if not totally incredible) to a distant observer. By many standards the multi-ethnic society surrounded by unstable and relatively poor nations, should face the same social, political and economic problems that (with the exception of Singapore), none of them has solved. But Malaysia's record is one of pragmatism which managed to hitch the free enterprise system to a 20-year plan called the *New Economic Policy* (NEP). And the twin targets have never been lost sight of by government regulatory bodies: political stability through democratic processes which believed in compromises rather than rigid ideology on the one hand and on the other, a clear undertaking to investors, both domestic and foreign, that their profitability would be safeguarded.



*Mahathir Mohamed
Prime Minister of Malaysia*



Some facts and figures

Land area:
330,434 sq km

Population:
13.6 million

Economy at constant
1970 prices:
US\$12,900 million

Major natural resources:

- *Rubber
- *Palm oil
- *Tropical hardwood
- *Pepper
- *Tin
- *Petroleum

Major investors from the U.S. include Esso, Goodyear, ITT, Motorola, Colgate-Palmolive, Monsanto, National Semi-conductor Corporation, Eastman Kodak, Union Carbide, Dow Chemicals, Hewlett Packard, General Electric, RCA and Texas Instruments, and in 1979 the US government signed an investment guarantee agreement with Malaysia. The growth and expansion of these companies — numbering among the 700 from all the major industrialised countries — is based on one primary point of confidence: the Malaysian government is "predictable", as Prime Minister Dr. Mahathir Mohamed puts it.

The predictability has meant confidence in a government that has not changed its course. It has demanded that investors should play a role in social engineering — not only by training local employees to fill senior positions but also to make sure that the backward ethnic groups be given opportunities to bring about a more balanced sharing of the national wealth among the various races. The social engineering is firmly based in the NEP with its two targets:

- * to eradicate poverty irrespective of race.
- * to reduce economic imbalance

between the races and the various regions of the country.

Incentives

In exchange for these demands the government has from the very beginning offered a wide range of incentives that include 10-year tax holidays for those who have the courage and imagination to accept the challenge. The higher the investment in fixed capital expenditure, the longer the tax holiday, reaching 8 years if the sum exceeds US\$455,000 and employs more than 351 person. Further tax exemptions are given to those who manufacture a designated priority product, the list of which runs into hundreds of items. Usage of Malaysian content in the final product further lengthens the tax holiday.

In its effort to take the manufacturer to the less developed area of the country, there are now locational incentives. These at first may sound like an invitation to the wilderness but sites visited testify to the seriousness of the planners who lay down the infrastructure before inviting the potential investor.

One of the more spectacular success stories in this respect is the

famed holiday island of *Penang*, where Malaysia's own "silicon valley" is located. An industrial backwater in 1970, it is now the home of *National Semi-conductor*, among others. The company has an investment of US\$30 million countrywide, but it played a key role in Penang's transformation from a romantic but poverty-ridden island to a bustling growth center. Today Penang's electronic industries are moving rapidly towards automation and at least one leading manufacturer — *Advanced Micro Devices* — is talking in terms of using the same levels of automation as those in the U.S.

But the locational incentives no longer apply to Penang. The areas on the list are in the extreme north in the state of *Kedah*, the long neglected east coast and the undeveloped areas of *Johor* in the south. But before the free trade zones were offered to investors, new super highways, airports and telephone systems were planned and started where none had existed. *The world's largest diamond cutting centre* — a joint Malaysian-Belgian venture — is located in *Kota Baru* in *Kelantan*, a state which had no fully macadamised road to link the major sea ports or airports 25 years ago. Today

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CHICAGO:

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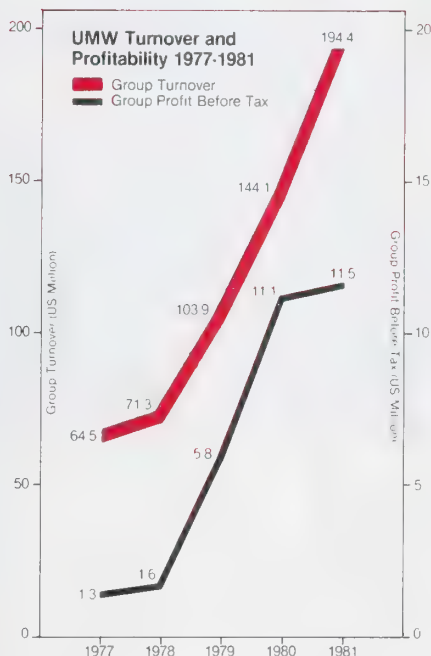
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it is linked to Penang by a highway carved out of the jungle and rock formations that took some 10 years to cut through. It also has a major airport and international telephone links with the rest of the world.

Kelantan — it now has a 4-star hotel — according to the *Malaysian Industrial Development Authority (MIDA)*, is poised to take off and from being the state identified with backwardness only 10 years ago, is expected to move into the forefront of the industrial scene in the country. With wages as low as US\$2 a day, it is hardly surprising that not only diamond cutters and electronics assemblers but even European manufacturers of fur coats are expanding their industries there.

Export Oriented Industries

A measure of the confidence of investors is the way export-oriented manufacturing has grown. In 1970 there was not a single 100% export-oriented manufacturer. *Today Malaysia is the second largest exporter of electronic semiconductors to the US after Japan.* Malaysia also ranks third in the world in exporting room air-conditioners and is the world's leading manufacturer of rubber gloves. The largest single rubber foam mattress factory anywhere is located here, and serves to give notice to the world that the country which produces 42% of the world's rubber is not willing to accept a mere US\$225 million share in an industry worth US\$50 billion a year.

Apart from rubber, other primary products which Malaysia leads the world include palm oil (49%), tropical hardwoods (37%) and tin (32%) and these products too await the imaginative investor with the technology and the courage to take up what the Prime Minister called "an invitation to be competitive in the future". The invitation was to those who recognise the Association of Southeast Asian Nations (ASEAN) with a population of 250 million as the growth centre of the future together with the rest of Southeast Asia and Pacific Basin. These areas did not have to depend on some sudden discovery of oil to become important, he said and predicted, "This is the biggest area that is growing in terms of economic wealth. It is not only going to be the future supplier but also the future market".

Heavy Industries

Dr. Mahathir's two most important contributions to Malaysia's economic thinking were to move into

heavy industry and to create a central investment unit that will enable the foreign investor to get all his answers at one office. The two are linked to his single thrust, to move out of primary production into a highly sophisticated industrial society. To this end negotiations have begun to manufacture (as opposed to merely assembling) motor cycles. Malaysia already assembles a huge variety of Japanese and European cars. Under the heavily government-backed *Heavy Industries Corporation of Malaysia (HICOM)* a sponge iron plant is being built and a second mill using natural gas as fuel is to be built in the coast of Trengganu state on the east coast of the Peninsula. With port facilities projected to increase in capacity by 60% over the next five years and some US\$500 million set aside to maintain and renew the railroad system, and a north-south superhighway already under construction, the vision is obvious. The chairman of the Malaysian Industrial Development Authority, Tan Sri Jamil Jan put it plainly: "Our process of industrialisation has reached a stage where it will be difficult to maintain a rapid pace of development unless we set up some of the heavy industries ourselves. These industries are not only necessary but also feasible and viable".

But the need for acquiring technology and capital at a rapid pace is what inspired the so-called one stop investment centre. An investor can already sit down in the MIDA office and speak to officials from the Federal Treasury, the Customs Department, the Immigration Department, the Ministry of Trade and Industry and the Ministry of Labor and Manpower. Other government agencies are expected to join these officials to enable the potential investor to get his needs sorted out without days of moving about town in search of officials whose day-to-day priorities lie elsewhere.

The climate of optimism in Malaysia as the shadow of the recession continues to overcast industries in the west was reflected in what Prime Minister Mahathir stated. An investment team, he said, was on its way to the U.S. and there were plans to visit several European capitals. "Now is the time to look at the possibilities so that when the upturn comes you have your options worked out". The fact that Malaysia was sufficiently secured to ride out the recession without resorting to desperate measures (there is a negligible measure of austerity with only non-essential spending being

pruned) is itself an incentive to potential investors.

PRIME MINISTER'S MESSAGE TO AMERICAN INVESTORS

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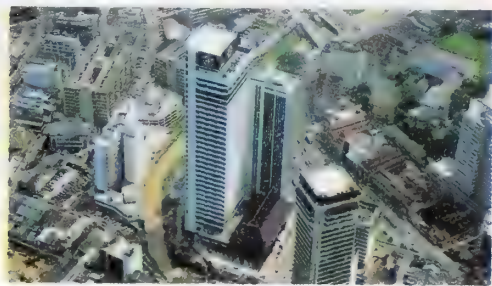
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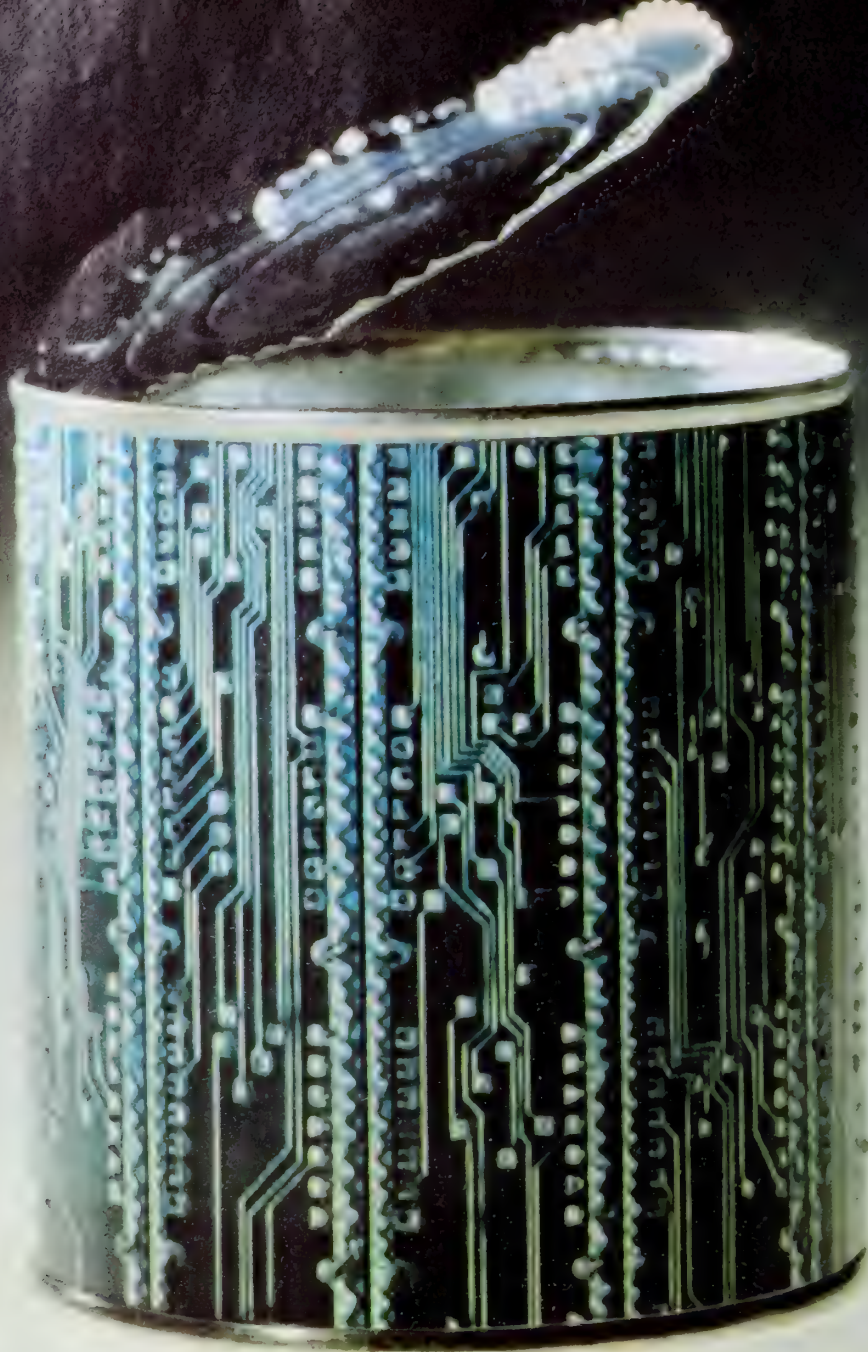
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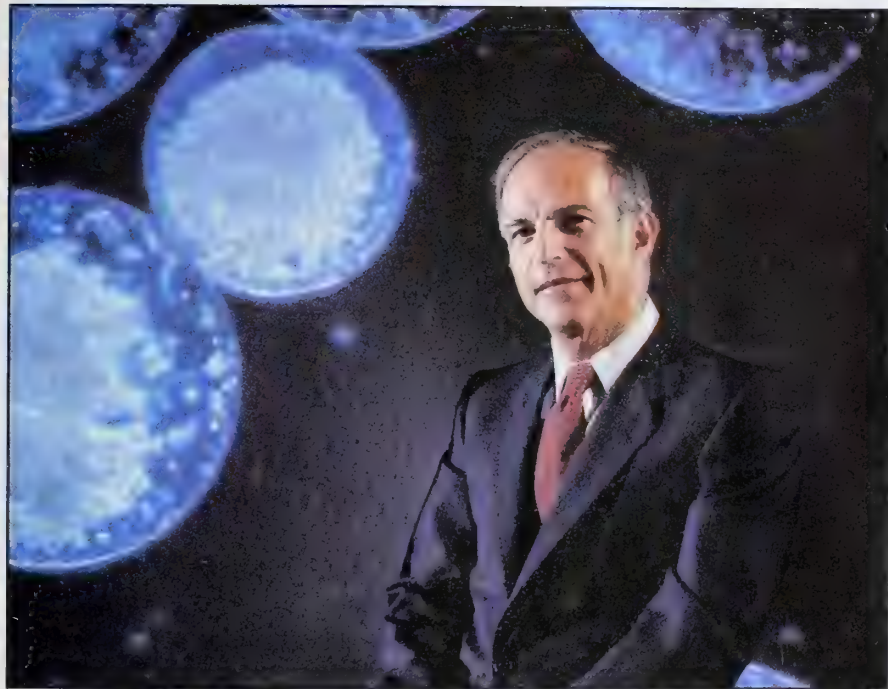
The Up & Comers

For a company with powerful scientific credentials, Damon Corp. has been stumbling. Has it finally found its feet?

Management, know thyself

Damon's president and founder, David Kosowsky

"We went into the labs business about seven years too early."



By Stephen Kindel

FROM THE DAY it went public in 1967 until 1974, Damon Corp. was the darling of Wall Street. With the company's sales growing nearly 100% a year, from \$3 million to \$141 million in 1974, each new move into a different area of technology was hailed for its brilliance. From crystal filters used in defense electronics, Damon sailed off into ventures as diverse as educational publishing, toy rockets and veterinary medicine. The stock soared into the stratosphere, hitting a high of 70% and a P/E of 62. Says Damon founder

and president, Dr. David Kosowsky, 52, in his high-pitched, rapid-fire way: "We had a company that, in the eyes of the analysts, could do no wrong. But we really weren't doing everything right." So much for Wall Street's perspicacity.

Perhaps The Street was dazzled. Kosowsky is a brilliant scientist. He wrote his doctoral thesis on "The Synthesis and Realization of Crystal Filters" under the tutelage of Kennedy science adviser and later president of MIT, Jerome Wiesner, and holds patents in instrumentation technology and biosciences. But as a businessman, he tends to act on what *ought* to

be rather than what is.

Listen to him on Damon's \$75 million clinical laboratory analysis business, which has never really recovered from its 1974 tailspin: "We made a judgment that the market would not be with the individual doctors, but with the hospitals." He adds, "After all, in every other country in the world, governments and insurance companies reimburse lab fees on a fixed basis. We truly believed that the U.S. would come to its senses and do things the same way, instead of the crazy cost-reimbursement system that exists here."

Convinced of the infallibility of his logic, Kosowsky poured millions into the labs business for more sophisticated equipment, more lab sites and more highly trained—and expensive—personnel. But as Damon Corp. made its labs better, they lost even more money.

Why?

Precisely because after Damon had demonstrated how efficiently and profitably labs could be run, every hospital administrator in the country decided to turn his lab into a profit center. As a result, as contracts with Damon began to expire in 1974, hospitals began setting up their own internal labs, financed by the virtually unlimited reimbursement funds paid out by the government and insurance companies, leaving Damon with its labs and people both underused. Meanwhile, other companies entering the labs business concentrated on servicing individual physicians. Thus, while the lab tests market has grown from mom-and-pop origins when Damon entered it to more than \$16 billion today, Damon has languished. Sales have remained flat for almost seven years, while long-term debt doubled from \$23.7 million in 1973 to a current \$45.1 million.

As the situation deteriorated, so did Wall Street's interest. The stock now limps along around 6, and the analysts who still follow Damon all echo the same cry: If only Damon would sell its labs business to one of the giants of the industry, a Revlon or a Smith-Kline or a Dow or a Corning, the company would be in much better shape. Says Kosowsky: "That's easy for them to say, now. When things were going badly with the labs, we couldn't give them away."

Kosowsky also has some explaining to do about Damon's veterinary business. Started as a means of gaining entry into the European labs market,

The Up & Comers

it took off when Damon developed a turkey herpes vaccine that protected poultry against Marek's Disease, a virally induced cancer, and another vaccine to protect chickens against immunological damage.

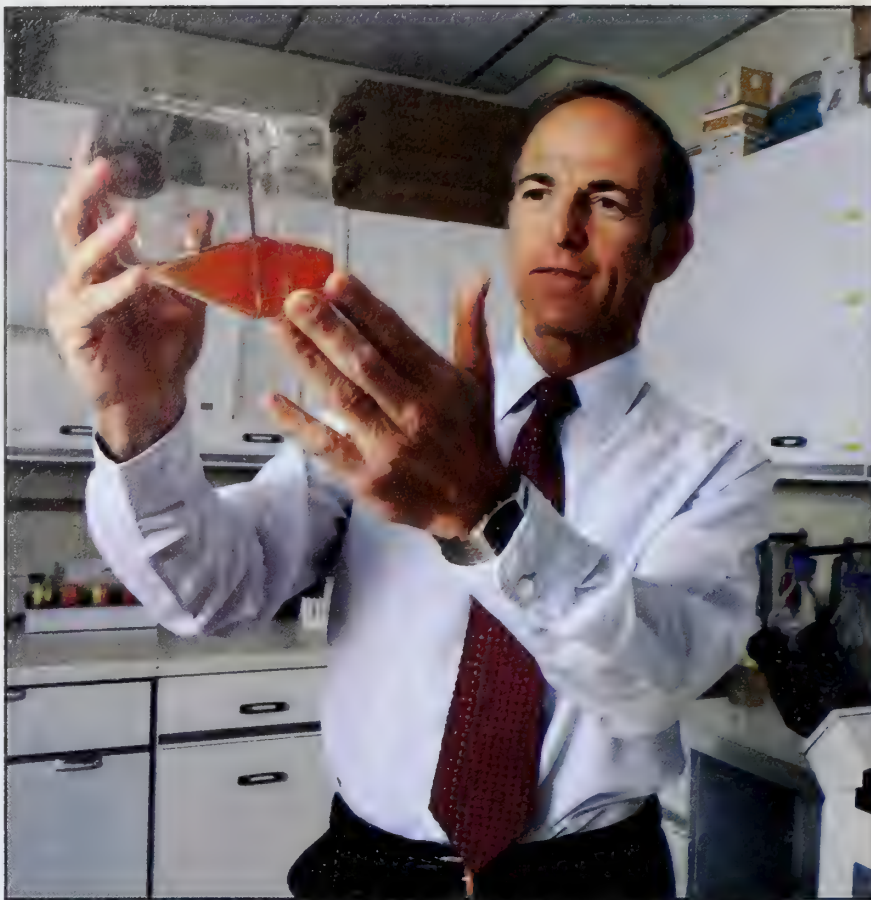
But it has been largely an up-and-down affair. While sales of veterinary products have remained more or less constant at about \$20 million a year, their contribution to Damon's income has fluctuated from a 7% of earnings loss in 1977 to 21% of earnings in 1980.

Worse, with limited funds for new product development, Damon's product line is now firmly tied to the erratic swings of the poultry business, a position that leaves Kosowsky more than a little uncomfortable and has knowledgeable observers suggesting that he should sell the division at the first sign of a good offer.

Damon's early foray into the hobby and educational products market has also had mixed, though more consistently profitable, results. As a student coming of age in the Sputnik era, Kosowsky was convinced that a market could be made for science-related toys, games and teaching aids. "We invested heavily in the new-curriculum era. You remember," Kosowsky says. "New math. New physics. New everything." Unfortunately for Damon, federal funds dried up for the new curriculums during the Nixon years, and the company never responded with materials for the return to traditional teaching methods—all of which has hurt earnings. Fortunately, Damon acquired Estes Industries, a Colorado manufacturer of toy rockets, whose sales line was largely responsible for keeping Damon in the black during the lean years.

What makes Damon's diversity so frustrating is that it erodes Damon's greatest strength—research and new product development—and forces management to spend too much time on marketing and distribution. "We are a company that is good at commercializing science and intellect," says Kosowsky, who still likes to put in a couple of hours a day at the lab. "But when we have to move against a behemoth, or a leader in an industry, we just don't have the resources. Logically, I guess, we should concentrate in the areas, like new product development, where we're strong."

Yet Kosowsky isn't behaving logically. Despite rumors and advice, he says he intends to stay with his existing businesses. The labs have shown



Kosowsky in the lab, with a flaskful of Encapcel-ated monoclonal antibodies
"The genetic messages get passed on more efficiently."

their first profitable quarter in a year, now that nervous state and local governments seek to trim outlays for medical care and are using a little judicious arm-twisting and carrot-dangling to force hospitals to experiment with farming out laboratory analyses to companies that agree to perform it on a fixed-fee basis. Says Kosowsky: "We went into the labs business about seven years too early. The Department of Defense learned a long time ago that cost-plus contracts would kill them. To us, it only seemed logical that such knowledge would cross the Potomac in less than a decade. But what did we know?"

While Kosowsky appears to be gambling on reviving the lackluster sectors of his business, in reality it is some promising research that has emerged from Damon's labs during the past year that gives the greatest evidence of turning the company around. Damon's new technology, a sophisticated system of encapsulating both biochemicals and living tissues, caused excitement among scientists who attended July's prestigious Gordon Conferences in biotechnology.

There's nothing new about putting things such as chemicals into small capsules, of course. Microencapsula-

tion is commonly used in time-released deodorants, fertilizers and cold remedies. What makes Damon's tiny spheres special is that they can enclose living cells. Nobody has ever been able to do that before. Kosowsky: "You see, when you grow cells in a flask, they just kind of float around, and they don't grow very rapidly. But when you push them up against one another, inside a sphere, they grow very well. We don't know why that is, but, observationally, the genetic messages seem to get passed from cell to cell more efficiently."

Ironically, Damon's success in this new technology, called Encapcel, is a direct outgrowth of Kosowsky's struggles with the labs business. When he first observed there was a market for lab analysis, Kosowsky decided that the logical move was to gain credibility with the pathologist who would be making the service purchasing decisions. So Damon purchased International Equipment Co., the oldest manufacturer of high-speed centrifuges. "There isn't a lab in the world that doesn't have at least one IEC machine," says Kosowsky, "so we figured they would respect us for the association." Aside from becoming Damon's strongest division, IEC un-

expectedly provided the company with research strength in physics that was soon to come in handy.

The diagnostics business contributed scientists with a knowledge of chemistry, who did the theoretical work on a membrane barrier that would hold uniform amounts of diagnostic chemicals; these in turn became a ready market for one of the first Damon Encapcel products. The veterinary business provided research knowledge of biological mechanisms. The centrifuge business contributed hardware that became the heart of the production system for making the capsules, and even Kosowsky's sentimental favorite, the electronics business that was Damon's original core, added its share to the Encapcel dowry: the electronic controls that keep the production of capsules flowing smoothly. Result: synergy, that rarely seen benefit of research, and a production system that spews out Encapcelated cells at better than 90% efficiency. "There's hardly any waste with the system," says Kosowsky, "because the cells that don't get encapsulated on the first pass through our machine are recycled and pumped through it again."

Since you can put almost anything into an Encapcel cell, Damon is keeping an ear open for offers and an open mind on agreements. "We've recently signed a deal with Hoffmann-La Roche to use our capsule for purifying human interferon," Kosowsky explains, "and we're talking to other companies about projects as diverse as storing whole blood and increasing the efficiency of fermentation. We're also funding research in areas such as encapsulating pancreatic cells, which produce insulin, for injection into diabetics. The process is kind of ubiquitous, so we're trying to isolate the best applications and find the best partners to help our profitability."

That help will begin to show up immediately. Damon expects to report income from its Encapcel technology as early as Sept. 1, the start of its next fiscal year. And as new uses for the capsules are found, the royalties and fees are almost certain to multiply as rapidly as do cells inside an Encapcel sphere. Most important, Kosowsky seems to have learned an important lesson. Because he tends to approach things in terms of how they ought logically to operate rather than how they probably do operate, he's much better off concentrating on scientific innovation, which markets itself, than in trying to identify commercial markets in the real, and not always entirely logical, world. ■

The Up & Comers

How do you make a fortune tending tresses? By taking it very, very seriously.

Hair today, more tomorrow

By Ellyn Spragins

YELLOW IRIS JEWEL, last year's world champion harness horse at Oklahoma's Morgan Horse Grand National Horse Show, had a special luster to her chestnut coat and floor-length tail. No wonder. Her owner, Leslie Blanchard, one of the

country's leading hairdressers and colorists, had used a half bottle of his own salon brand shampoo on Yellow Iris Jewel.

Blanchard can well afford such eccentricity. His \$1.3 million interests have been expanding beyond a posh Manhattan salon to a hair-care line, a flourishing consulting practice, a re-



Hairdresser Leslie Blanchard in his salon

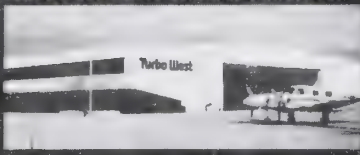
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cently published book (*Leslie Blanchard's Hair Coloring Book*), an unfolding TV career and the care of some of Hollywood's most cherished scalps: those of Meryl Streep, Ellen Burstyn, Robert De Niro and little Aileen Quinn, star of the movie *Annie*.

"I don't get nervous anymore about doing talk shows to promote my book," says the 48-year-old Blanchard from the third-floor office of his Upper East Side brownstone salon, where he is surrounded by part of his art collection and giant color photographs of fashion models. "I know I'm one of the best in my business, and I want to share it with people."

Downstairs in his salon, there is an atmosphere of cozy elegance, complete with graceful archways and fresh-cut flowers. There Blanchard, whose diminishing crop of red-blond hair is untouched by artifice, oversees the four-hour metamorphoses of as many as 60 clients a day. Secretaries, executives and celebrities willingly pay \$145 for his initial "prescription" and \$45 to \$55 for monthly maintenance of their locks.

Most of his customers stay with him for life. TV broadcaster Barbara Walters, for example, has been a client for over 20 years. "He's an artist," says another fan. "It's sort of like E.T. touching the flower and bringing it to life."

Blanchard decided to become a hairdresser 31 years ago when he was growing up in the tiny village of Barre, Vt. "I used to brush my grandmother's hair and loved being involved with hair," he explains. He earned his way through a Boston hairdressing school by working as a busboy in a summer resort. Later, while working as a stylist, he attended Clairol's evening seminars on coloring and found them fascinating. Soon after, Clairol hired him to do training. Twenty years later, including a ten-year stint at Saks Fifth Avenue, Blanchard opened his own salon. Unlike Vidal Sassoon, so far Blanchard has resisted the temptation to franchise. "I'm too much of a perfectionist," he explains. "It's very difficult to have many salons and keep the quality." So he found ways to sell his coloring expertise to far more women than he could ever get into a salon.

Take his 25-year affiliation with Clairol, for instance. Blanchard advises the leading hair-color company on testing and development and promotes its products in cross-country beauty clinics. For this collaboration,

Blanchard gets the inside scoop on new coloring products, a nationwide reputation and a salary of around \$100,000 a year.

The Clairol affiliation should help Blanchard's latest venture—a coauthored hair-coloring guide that was published last month. The book clubs haven't made their decisions yet, but Clairol has already bought a bundle to offer at \$6.95 to coloring-kit purchasers, against the book's usual \$17.95 retail price.

Blanchard is the first to admit the book doesn't give away all his secrets. "The first book was a hype to get people excited," he says. "The second will show better ways to color your hair." It may not be necessary. Thanks to his TV appearances, Blanchard is thinking of a syndicated TV show and—risky as it may be—franchised Leslie Blanchard hair-coloring studios.

Meanwhile Blanchard is trying to get more mileage out of his two-year-old hair-care product line. Though annual sales are \$250,000 in department stores, Blanchard figures he could sell 10 times that amount through better drugstores. And Blanchard says there are other markets. In his mind's eye he sees the Aberdeen Black Angus herd and 35 Morgan horses on his 300-acre Sussex, N.J. farm. He remembers the shiny coat of his champion horse. A gleam comes into his eye. Lots of his clients take his products to their dog grooming places, he notes. "And small dogs like Yorkies have a very difficult time with their coats breaking and splitting," he says, pondering a moment before he continues. "After all, it's still hair. . . ."

"The last scraps of the can"

In a well-established technology with highly fragmented markets you have to be a bold gambler just to survive. You cannot hope to hold on to innovation winnings very long because it's comparatively simple for competitors to follow your lead. And if you stand pat you're forever at the mercy of newer technologies and declining markets.

But when you have just placed most of your chips on the winning number it's easy to lose sight of those harsh realities of the backwater. Just ask Albert Cohen of \$14.6 million (sales) Metex. When FORBES stopped to chat with him in May 1980, Cohen was riding the crest of a seven-year boom in the catalytic supports business. He had gambled everything on being able to take his company's knitted wire mesh and turn it into a cradle that

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would prevent catalytic converters from being blown out of automobile tailpipes.

Soon Metex became the sole supplier of supports to Ford and Chrysler, and sales rose from \$5 million in 1973 to \$18 million in 1977. The company was on its way.

But then the bottom fell out. First, car sales started their long slide. Then new competitors like Glitsch and ACS Industries undercut Metex' prices and walked away with much of the business, including Ford's, which had once provided Metex with a third of its sales. Worst of all, the 1981 emission standards for cars, which promised to require more converters—and more knitted mesh—in each car, actually led to a new, more efficient kind of ceramic supporter, which competed with Metex' star product.

So Cohen fell back on another Metex innovation called Thermaseal: a gasket that prevents exhaust gas leakage in car tailpipes. It now has half of the \$10 million worldwide market and provides the company with 40% of its sales. But now it, too, is facing market erosion and price-cutting. "There's not much growth in this business," says Cohen. "It's like a bunch of dogs fighting for the last scraps out of the can." The scraps from all this competition are hardly worth fighting for—Metex' 1981 pre-tax margins are only a tenth of the 24% they reached in 1976.

Over the last year Cohen took some drastic steps. He had to fire almost 40% of the company's staff, move corporate headquarters into one of its Edison, N.J. factories and close down the other.

Cohen finally tried to acquire his way out of the knitted mesh tangle by buying OEM Components, Inc. last September. A small (\$2 million sales) parts supplier to oilfield equipment manufacturers, OEM's sales seemed just about to take off with a product that prevents blowouts in oil well drilling, when oil prices fell and drilling activity practically stopped. But even if oil drilling boomed, the Houston-based company is probably too small to pull Metex out of the bog. "It's got growth potential," says Dick Barrett, an analyst at Newhard, Cook & Co., "but it doesn't have enough."

What now, Al Cohen? Another acquisition? Liquidation? "I'm not going to live this way, that's what I know," he replies. "I'm married to making high returns on investment, not to running a business that is scratching every day." That may be easier said than done.—Ellyn Spragins

BID SOLICITATION

Rotan Mosle Realty Services, Inc., acting as agent for the owner announces the auction sale of certain select tracts of real property in metropolitan Houston, Harris County, Texas. The four tracts of land for which acquisition bids are solicited are described briefly as follows:

1) Galleria Property. 28 acres with frontage on the West Loop (Interstate Highway 610). The property is formerly the West Oaks Subdivision.

2) Westheimer/West Houston Property. 510 acres in 3 separate tracts bounded in their entirety on the north by Westheimer Road, on the east by Old Westheimer Road, on the south by the Southern Pacific Railroad right-of-way and on the west by Dairy Ashford Road. The owner will reserve all minerals and surface rights waivers will be granted. A portion of one of the tracts is located within the corporate limits of Houston, Texas.

Additional information and a formal bid package including detailed bid instructions on the above properties may be obtained from:

Edwin L. Summers, Vice-President
Rotan Mosle Realty Services, Inc.
1700 Pennzoil Place, South Tower
Houston, Texas 77002
713/236-3370

ROTAN MOSLE
Realty Services, Inc.

Faces Behind The Figures

Edited by Barbara Ettore

Apple fields forever

What do you do if you are cofounder of a company that in four years went from \$774,000 in sales to \$335 million, you're now worth around \$50 million, and you're just 32 years old? If you are Stephen Wozniak, crazy about popular music as well as a founding father of Apple Computer, Inc., you might consider staging your own music and technology festival. Which is exactly what "Woz," as he is known to his friends, is doing.

For the past year Wozniak has been planning "The Us Festival," as he calls it, a three-day celebration of song and science scheduled for the coming Labor Day weekend in San Bernardino County, Calif. The site, about 60 miles from Los Angeles, is the 500-acre Glen Helen regional park. The upfront money—for talent guarantees, stage, sound system and the construction of a 57-acre outdoor amphitheater, among other odds and ends—is \$12.5 million. All of it Wozniak's.

The big idea, he says, is to bring people together, to focus on the Eighties as the "us" decade as opposed to the "me" decade of the Seventies. Hence the name of the company he



Apple Computer—Stephen Wozniak
Think "us," not "me."

formed to organize the event, Unuson Corp.—Unite Us in Song.

Unuson hired rock concert promoter Bill Graham, currently busy with the Rolling Stones' world tour, to book the music talent. Among those signed to appear are Fleetwood Mac, Santana and Pat Benatar. The technology side is the brainchild of Woz, and will feature seminars, demonstrations and exhibits primarily celebrating telecommunications and, of course, personal computers. A single admission to the festival, good for all three days, is priced at \$37.50. If, as he expects, 250,000 people show up at that

stuff into building products.

Trying to make a dollar in building materials would seem challenge enough these days. Not for Pamplin, apparently. In June, Pamplin, who already owned one-third of the shares, paid \$30 million to acquire the remaining shares of Mount Vernon Mills, Inc., a small (1981 sales, \$130 million) South Carolina-based textile mill with problems of its own. "It's not important what the industry is," he explains. "You make more money in manufacturing. That's why I look at manufacturing companies."

In Pamplin's day at Georgia-Pacific,



Robert Pamplin at his Ross Island sand and gravel operation

"I'll stay on the job as long as I have my wits about me."

price, Unuson will be out a mere \$2.6 million for the festival, which it hopes to recoup through a videodisk, a record album, a film and a cable deal. "I'm not worried about the money end," he says. "I get worried about whether we're going to get certain groups to perform."

Wozniak has been on leave from Apple, where he is vice president of R&D. But he'll be back. "All I want to do is design computers," he says. "That's where I've been headed my whole life."—Ellen Paris

Once more, with feeling

Robert Pamplin, 70, has already had one shot at growing a company. For nine years, until his retirement in 1976, he ran giant Georgia-Pacific, the forest products outfit, taking it from \$812 million to \$3 billion in sales. Now Pamplin is happily growing another company—R.B. Pamplin Corp., whose major asset, aside from some stock investments, has been Ross Island Sand & Gravel Co., a \$20 million (sales) outfit that removes sand and gravel from an island in Portland, Ore.'s Willamette River and turns the

100% of the company's pension fund assets was invested in G-P stock—a powerful motivator, he thought, for the work force. "If people didn't work to make it good, they wouldn't have a pension." He thinks incentives still matter. Mount Vernon, for example, has been losing money on its printed fabrics, which account for nearly 25% of sales. Pamplin's response has been to convince Mount Vernon's employees to take a 10% salary cut in exchange for profit sharing. "Textile companies probably get lower earnings based on investment than any other industry," he says, in the soft accents of a Virginia native. "You have to get some employee participation to make it more efficient."

Borrowing another leaf from the G-P operating manual, Pamplin has just completed a \$1.5 million sacking plant—the largest on the West Coast—to move his concrete, asphalt mix and other products in 50-pound sacks to the retail do-it-yourself market. G-P was a pioneer in taking its lumber and plywood closer to the retail level by setting up a wholesale distribution operation. So, despite the slump in construction, Pamplin

thinks sales in sacked products "will be up 15% to 20% over last year."

Pamplin's son, Robert B. Jr., 40, has joined him as president in the front office, which is on the 18th floor of G-P's building in Portland. But Pamplin Sr. has no intention of easing up. "I know how to operate a company and make it grow," he says. "I'll stay on the job as long as I have my wits about me."—Roger Neal

Send a little rain

The island of St. Lucia, 425 miles southeast of San Juan in the eastern Caribbean, would suit even Edgar Allan Poe's poetic notion of a "green isle in the sea"—benign climate, adequate rainfall, all "wreathed with fairy fruits and flowers." But tiny St. Lucia (area, 238 square miles; pop., 125,000) also has unemployment as high as 26% when crops aren't being harvested.

Doing something about that will take capital, says John Compton, St. Lucia's prime minister, and he is less than thrilled by the help he can count on from the Reagan Administration's Caribbean Basin Initiative. Out of a \$350 million package of CBI economic aid, St. Lucia and ten other small



Prime Minister Compton of St. Lucia
Yes, we need more bananas.

Caribbean nations with a total population of 2.5 million were slated jointly to share in just \$10 million.

"The \$10 million is a joke," Compton says. "It is tokenism, not a serious effort to give us a chance to take advantage of the trade and investment package. It would take \$10 million to \$12 million just to get St. Lucia alone going." That's why Compton, 56,

who studied law and economics in Britain, has been in Washington, D.C., lobbying in Congress, with Vice President Bush, with the AFL-CIO.

Compton may be getting somewhere. Although the bulk of the \$350 million aid package, still working through Congress, is aimed at El Salvador, Costa Rica, Jamaica, the Dominican Republic and Honduras, Congress and the Administration now talk of \$20 million for the smaller islands. At the higher figure, State Department officials say, the tiny islands like St. Lucia will make out better under CBI (\$30.70 per capita) than will El Salvador (\$22.20).

Compton, a politician with a distinctly free enterprise philosophy, points out that small populations exacerbate the problems of financing roads, power and water programs necessary to attract industry. He wants to increase agriculture—especially banana cultivation—add garment manufacturing and attract labor-intensive electronics assembly plants. At AFL-CIO headquarters, where the CBI program is a worry, he calmly but bluntly argued that the jobs he was seeking are destined in any case to move offshore, where wages are closer to the \$8 to \$10 paid daily in St. Lucia, compared with the U.S. minimum of \$26.80 for eight hours.

Compton, founder of the 18-year-old United Workers' Party on St. Lucia, is practical above all. "We just can't sit down [and wait] for industry," Compton says. "We have to go out and get them and when we get them, we have to be prepared to accommodate them. The good Lord send the rain; you go out and plant the seeds."—Allan Dodds Frank

"Fingers-on" experience

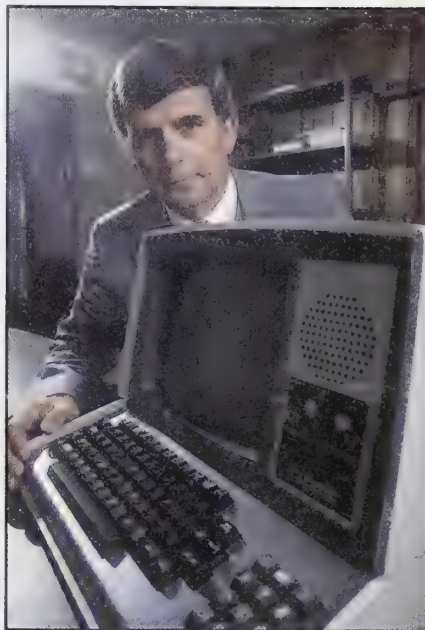
Thirteen years ago a student at the University of Dayton remarked to Guy Carbonneau, a computer specialist there, how nice it would be if printout machines could print braille.

The idea instantly intrigued Carbonneau. With two colleagues he spent two months on the problem and produced a braille printer that connects to a computer. That was the beginning of Triformations Systems, Inc., which last year sold \$2 million of equipment specially designed to give the blind access to the computer world and made some \$200,000 for Carbonneau's good works.

Carbonneau's first printer, an ordinary computer's teletype terminal modified to allow it to punch raised dots, did ten braille characters per second. His latest machine punches out

120 braille characters a second. Triformations has expanded its line to include machines that produce braille from a keyboard or from a video display terminal. Last year Triformations introduced a terminal that produces spoken letters or words. It also runs the only for-profit braille printing house in the country.

Carbonneau, who had worked for RCA as a systems specialist before going to work for the University of Dayton, spent four years in a basement making computer equipment for the blind. Then, with \$250,000 in seed money from the University of



Guy Carbonneau of Triformations
Another computer output—braille.

Rochester, he moved Triformations to Stuart, Fla., near Cape Canaveral and its skilled labor pool, and started production with five employees (two of whom are blind). He now employs 50 people and has opened up sales offices in London and Paris. He expects sales, growing at 25% a year, to hit \$2.5 million in 1983, and over 40% of that to come in Europe.

Carbonneau, 41, has only just begun to bring the blind into the computer age. His latest device is a paperless braille unit that raises and lowers metal pins to form a line of braille dots on a board the size of a small tape recorder. It has a standard braille keyboard for input and can be hooked up to computers and typewriters. Triformations is also working on encoding braille on cassette tapes. "The visually impaired have missed computers so far," says Carbonneau. "Triformations is bringing them up to date, and making money at it."—Aaron Bernstein

Westinghouse open office systems increased white collar productivity 14 times the national average.

An independent study proves that office environment can improve office worker productivity.

A scientific study by Human Factors/Industrial Design, Inc. proved that, when a Westinghouse open office system replaced the conventional floor arrangement at Blue Cross Blue Shield of Michigan, white collar productivity rose 5.5%. That's 14 times the estimated national average of 0.4% per year for the past decade.

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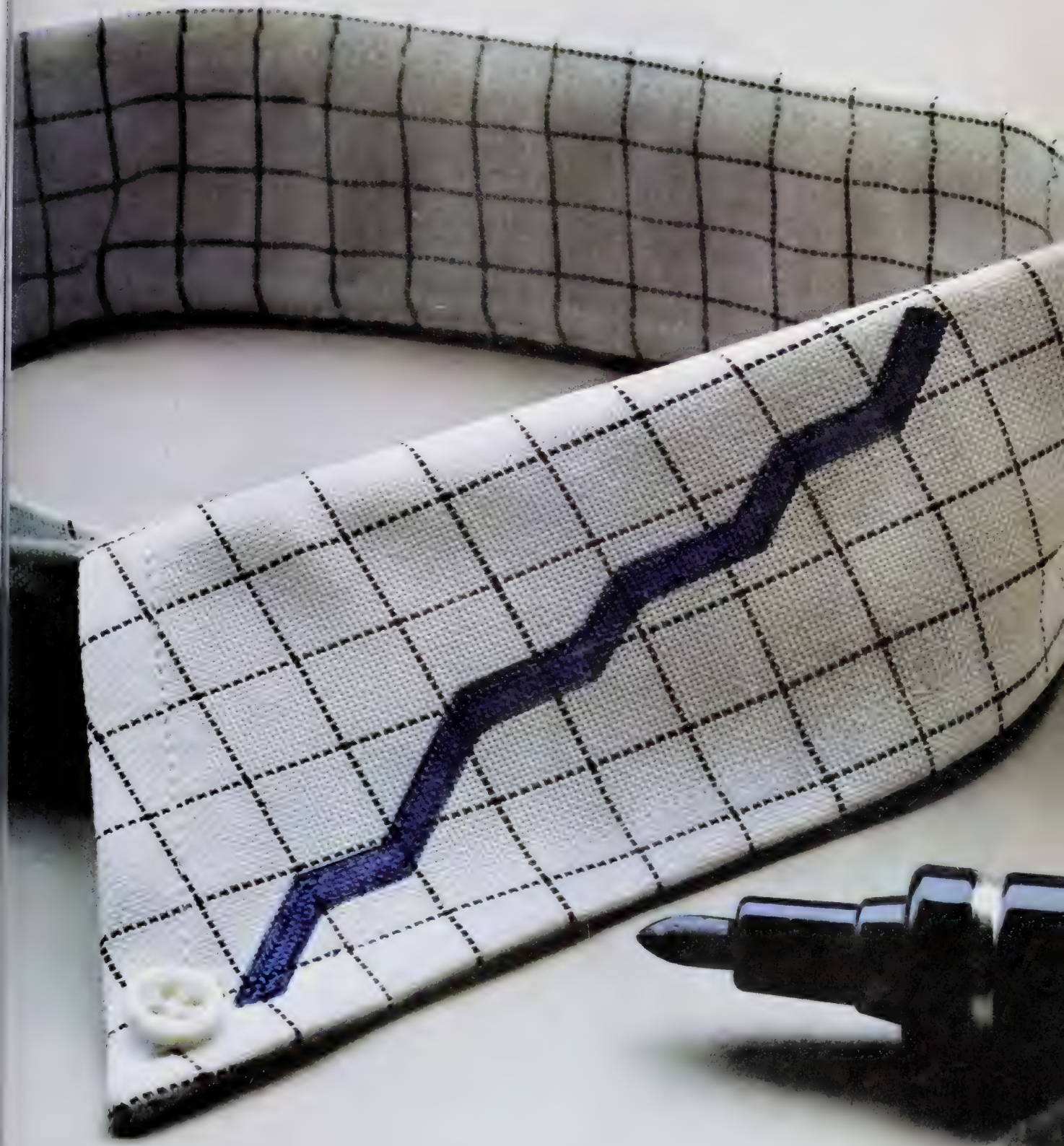
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PRODUCTIVITY:



ASK WESTINGHOUSE



Most CEOs shun unnecessary risks. Then why do so many allow themselves to get talked into starring in their companies' TV commercials? Could it be desperation or simply...

The smell of the greasepaint

By Kevin McManus

Admen are fond of reciting an old piece of doggerel that goes something like this:

*When a client proves refractory
Show a picture of his factory.*

*If he still moans and sighs
Make his logo twice the size.*

*But only in the direst cases
Ever show the clients' faces.*

The final couplet has never been taken seriously by ad agencies or their clients, of course. For reasons both good and bad, and with results ranging from spectacular to embarrassing, company CEOs commonly star as "presenters" on the tube and the radio

and in print ads. Is it wise?

Any CEO who has even thought about it probably has some flair for the dramatic and might be able to pull it off. On the other hand, is there any reason a professional actor wouldn't do just as well or better?

Even such successful corporate pitchmen as Commander Whitehead of Schweppes USA and Colonel Sanders of Kentucky Fried Chicken were widely regarded as professional actors. Many viewers or readers undoubtedly didn't know these men actually ran the companies they plumped for. They could have come from central casting instead of the boardroom.

So why do the likes of Frank Bor-



Chrysler's head and its company waves

Challenging viewers to look for a better value. Some did.

Personal Affairs

Edited by William G. Flanagan

Bill Marriott, Frank Perdue and dozens of other heads of companies ranging from huge conglomerates to roadside rests don the greasepaint?

Certainly there is considerable downside risk. If the campaign flops, critics (including stockholders and analysts) will blame the ego of the CEO, the desperation of the agency and the lack of guts of company henchmen in failing to tell the emperor he had no clothes.

On the other hand, if the campaign is successful, the CEO will be hailed as a gutsy, multitalented genius who had the tenacity to brave the charges of being an egotist; the agency will win kudos for having the brilliance to see that the CEO was a "natural fit"; and the corporate officers will be hailed as sound advisers.

Most top agencies have mixed feelings about using the company CEO as a presenter, especially when the suggestion comes from the CEO himself. Indeed, some agencies claim they will not even handle a client who insists upon being the star when he or she is clearly inappropriate. Says Ken Roman, president of Ogilvy & Mather, "If you do something that's wrong for the client's business, the advertising will fail and you will be fired. So if you think the client is wrong, you had better say, 'Hey, this isn't going to work, and we're not going to be associated with failure.'"

But agencies have lost accounts, or

A star is born

Out of desperation Chrysler's ad agency in 1979 turned Lee Iacocca into a TV spokesman. Says Kenyon & Eckhardt Executive Vice President Ron DeLuca: "As word got out that Chrysler was going to the government [for loan guarantees] and was in serious trouble, it had a devastating effect on sales. We had to find a way of assuring the public that regardless of what they had heard, we were still making a good product."

Iacocca turned out to be the country's most recognized corporate pitchman. Says DeLuca: "He's a clear-headed thinker and doesn't pull punches. All the research we have done says that this is the way he's coming across."

Chrysler's chief doesn't demur; he knows he's effective. But he limits his TV appearances and constantly talks about getting off the tube forever—at least as a pitchman. Some of his musings on the subject:

"To me it's generally anathema to do commercials, and yet I've done them for a few years because of the mess we had going in the company. I am trying to withdraw. I have turned down a lot of work the agency wanted me to do.

"If a guy wants to be on an ego trip, if he wants to be noticed, that's his nickel. I suggest he get into politics. As for me, I wish I could have my privacy back."



Lee Iacocca

"I wish I could have my privacy back."

"In the dark days of a few years ago the few spots I did were to say, 'Hey, we're gonna be in business a long time to come and we're building good cars. Compare 'em, will ya? Give us a break.'"

"I guess most chief executives would make commercials for their company if they were asked to, to try to instill some confidence. In my commercials I say, 'Here's what I'm going to do for you as a consumer. I'll deliver on my promises and if I don't, write me.' And of course every time I do a commercial the mail goes way up. A lot of guys say, 'I did

what you told me to do. I shopped and I didn't find a better car.' The other guys say, 'I shopped and I found a better car.'"

"You don't save the company significant money by being your own spokesperson. In my old company we checked out who had the greatest believability and found it was Walter Cronkite—and he didn't want to do ads for us. And then we got Bill Cosby.

"To guys like that you have to give more than a couple of cars. You pay a lot of money, maybe a couple hundred thousand. So you could save that. But listen, when you're spending maybe sixty or seventy million on TV, what's a hundred thousand among friends?"

failed to win new ones, for being so forthright. The persistent CEO will doubtless be able to find another agency if he insists upon stardom.

Lois Korey, president of Korey, Kay & Partners, told a prospective retailing client that one of the reasons sales were dropping was that the president was bombing in commercials. "We said, 'We suggest you not be the spokesman,'" recalls Korey. "And he said, 'Oh, thank you very much,' and went with another agency that continued to use him the same way."

But more than one agency has won handsome accounts by suggesting that the CEO take to the boards. David Mahoney, chairman of Nor-



David Mahoney touting Avis

More appropriate than Glenn Ford?

ton Simon & Co., was sorely disappointed with the way Glenn Ford came across as a spokesman for Avis, a Norton Simon subsidiary. Three agencies were invited to come up with alternatives, and McCaffrey & McCall won the lucrative account suggesting that Mahoney himself star. (The jury is still out on whether the Avis radio, TV and print ads are successful. But the ads have certainly generated media reaction. Both the *Wall Street Journal* and *Advertising Age* have run stories on whether Mahoney acted wisely. Ironically enough, those stories were at least partial vindication for Mahoney—they generated a lot of attention for Avis, even before the ad cam-

Personal Affairs

paigned was in full swing.)

Most of the top executives appearing in national commercials for their own companies—notably Chrysler's Iacocca, Frank Borman of Eastern Air Lines, hotelier Bill Marriott and Schlitz chief Frank Sellinger—were asked to do so by their agencies. But not every CEO is willing to go along with what an agency suggests. At least one, Thomas Ayers, retired chairman of Commonwealth Edison Co. in Chicago, went so far as to have some tapes made before he put the kibosh on being a star.

"The credibility of the individual is extremely important," says Walter O'Brien, president of J. Walter Thompson U.S.A., one of the country's biggest agencies. "And people don't learn that, they're born with it."

Like Lee Iacocca, for example. "He has an interesting personality and he's a showman," says Lois Korey. "He's a great automobile salesman," says Ken Roman. And the come-from-way-behind effort embodied by



Eastern Air Lines' Borman

Do heroes sell plane tickets?

Chrysler's chairman appeals to American TV audiences' sense of drama. (See box, p. 79.)

But, just as Mahoney has taken heat for starring in Avis ads, Iacocca also has been roasted in the national business press, despite the success of his ads. In a recent front-page article the

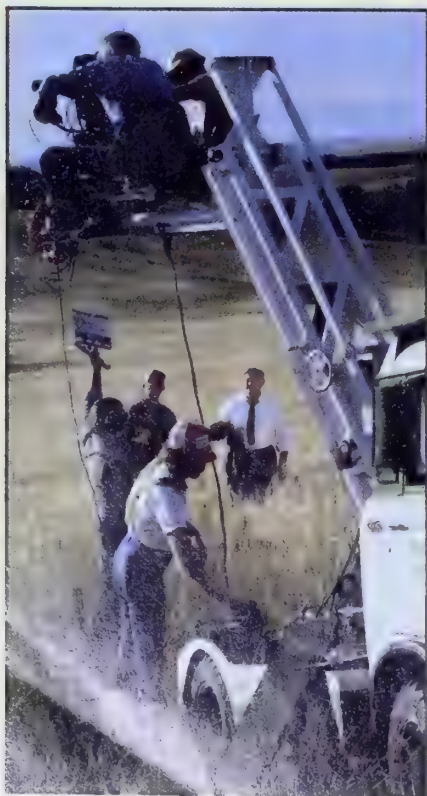
Wall Street Journal gave vent to a rumor that the Chrysler chief "yearns to be the president of all the people," citing as partial evidence "those larger-than-life TV commercials for Chrysler."

Apparently, you just can't win. Indeed, according to Barron Bates, Chrysler's vice president of public relations, Iacocca initially resisted doing the commercials, doesn't enjoy doing them, and says he doesn't want to do any more. But, Bates concedes, that does not mean he will refuse to appear in any more ads; he is just reluctant to do so.

Certainly the financial community appreciates his presence. An automobile analyst with Drexel, Burnham, Lambert notes: "Without those ads the company's efforts would go pretty much unnoticed. The ads have been a big positive for Chrysler."

Given the fact that measuring advertising results is never easy, it can be difficult to measure how effective some CEOs really are as spokesmen. For every fan, there seems to be a critic. Take former astronaut Frank Borman, for example. "He's kind of a genuine American hero, I guess," says William Dowse, Eastern's vice president of advertising. "That has given his message more intrinsic acceptance all along."

But Ken Roman of Ogilvy & Mather (which does not have the account, of



Schlitz' Frank Sellinger

Making ads can be frustrating.



Hotelier Bill Marriott

Credibility is the key.

course) disagrees. "Eastern Air Lines flies airplanes, and Frank Borman is known for space. Okay. But is that the right strategy for Eastern? Having Borman check out the kitchens and having words put in his mouth? That's a constraint. That's a forced fit."

Frank Sellinger of Schlitz credits his success as company presenter to the fact that he "comes across as a regular guy." Others aren't so sure that he does. Says the president of a medium-size agency: "Seeing him say that Schlitz beer tastes terrific doesn't get me to buy the beer. It says to me that it tastes lousy and they had to put the chairman on to say it was great."

Nor does Mahoney escape industry carping. Says Roman: "To me, he's Mr. Conglomerate. What he knows about rental cars, or stands for, I can't imagine." (Some industry observers think that one reason why Mahoney stars in commercials for Avis is to silence rumors that he is trying to sell the company.)

Besides all the sniping, CEOs who appear in ads have to deal with being in the limelight. Their anonymity is gone. John Sweet, who starred in a campaign for *U.S. News & World Report*, remembers being "pleased and flattered" that strangers could pick him out of a crowd. Disgruntled Eastern customers don't hesitate to complain to Borman on flights. And Sellinger sometimes gets calls in the middle of the night from overly enthusiastic Schlitz drinkers reporting on their own taste tests.

Another bother is the actual making of the commercials.

"It's not the kind of experience that a CEO normally has," says Walter O'Brien of JWT. "He suddenly finds himself in a situation where he is not influencing or giving orders so much as he is taking directions. This can be annoying to someone who puts a premium on time."

Note: CEOs don't have to join any union or accept "union scale" payment to take to the airwaves. A spokesman for the Screen Actors Guild in New York says that a presenter doesn't have to accept any money if he portrays himself in the ads.

Some CEOs, such as Iacocca, accept nothing, while others negotiate rather hefty payments through their agencies. "Some of the very good ones take about a dollar a year," says broadcast advertising consultant Hooper White. "But some of the guys that are terrible get large sums."

Should CEOs make commercials? Sparingly.



100% NEUTRAL SPIRITS DISTILLED FROM GRAIN. 80 PROOF. GORDON'S DRY GIN CO., LTD., LINDEN, N.J.

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For an appliance manufacturer, this meant a reduction in warranty repair claims, more productive use of the home service fleet, and vastly improved good will. One manufacturer of facsimile equipment has found that on 30 per cent of calls, the difficulty can be solved in minutes.

A maker of hobby airplanes significantly reduced returns by adding a "hot line"—an 800 Service number—so customers with trouble could call in for help. An industrial parts supplier now responds faster to questions on stock, billing, shipping, and adjustments.

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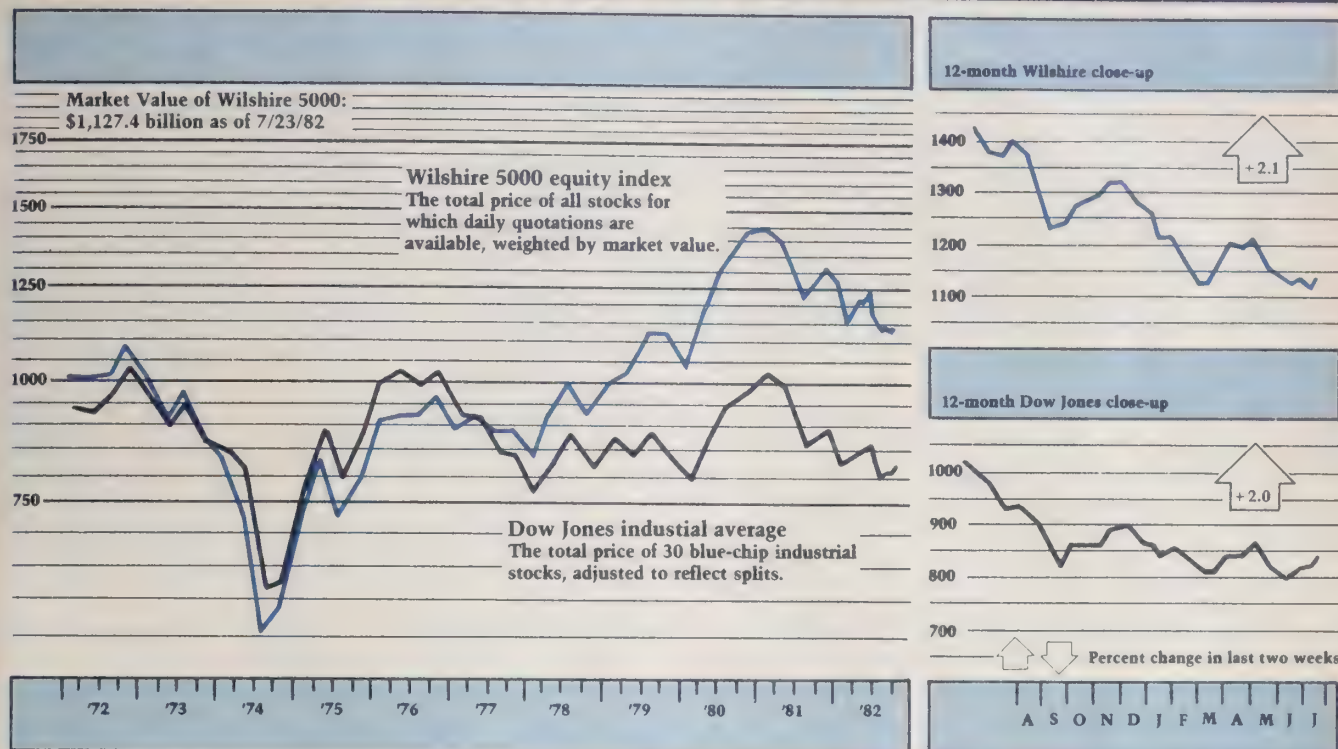
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The Forbes/Wilshire 5000 Review



Leaving the bottom. Wall Street made gradual progress over the past two weeks. The Wilshire index, which measures over 5,200 securities, advanced 2.1% and added more than \$41 billion in capital. The NYSE and the Dow industrials performed almost in step with the Wilshire. NASDAQ issues, meanwhile, were up 2.4%. Amex issues, up 3.3%, registered the best gains of all.

Despite these hard-won gains, the market is still well behind where it was one year ago. For the last 52 weeks the 30-stock Dow is off 11.3%. As is often the case, the

Dow understates a bull market and overstates a bear market. The Wilshire shows that the overall market dropped \$225 billion in capitalization and fell 16.3% during the last year. The NYSE composite, off by 14.5%, is even further behind than the Dow, but NASDAQ stocks now show a one-year loss in excess of 17%. The clincher is the 30% decline in Amex issues.

For a major rally to occur, the market must overcome the past year's damage. In addition, long-term investments must get an edge on short-term profit-taking.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	1.6	3.4	1.7	1.7	1.0
in last 52 weeks	-16.3	-11.3	-14.5	-30.0	-17.3

Stock performance based on five key investor yardsticks

Percent change	Volatility*		P/E multiple		Dividend yield		Growth profile†		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	2.6	1.5	1.0	4.5	1.4	4.0	1.8	1.9	2.0	1.0
in last 52 weeks	-14.4	2.1	-24.3	-2.7	-0.3	-7.1	-12.3	-3.1	-14.3	-15.0

*A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.
†A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 7/23/82. Prepared by Wilshire Associates, Santa Monica, Calif.

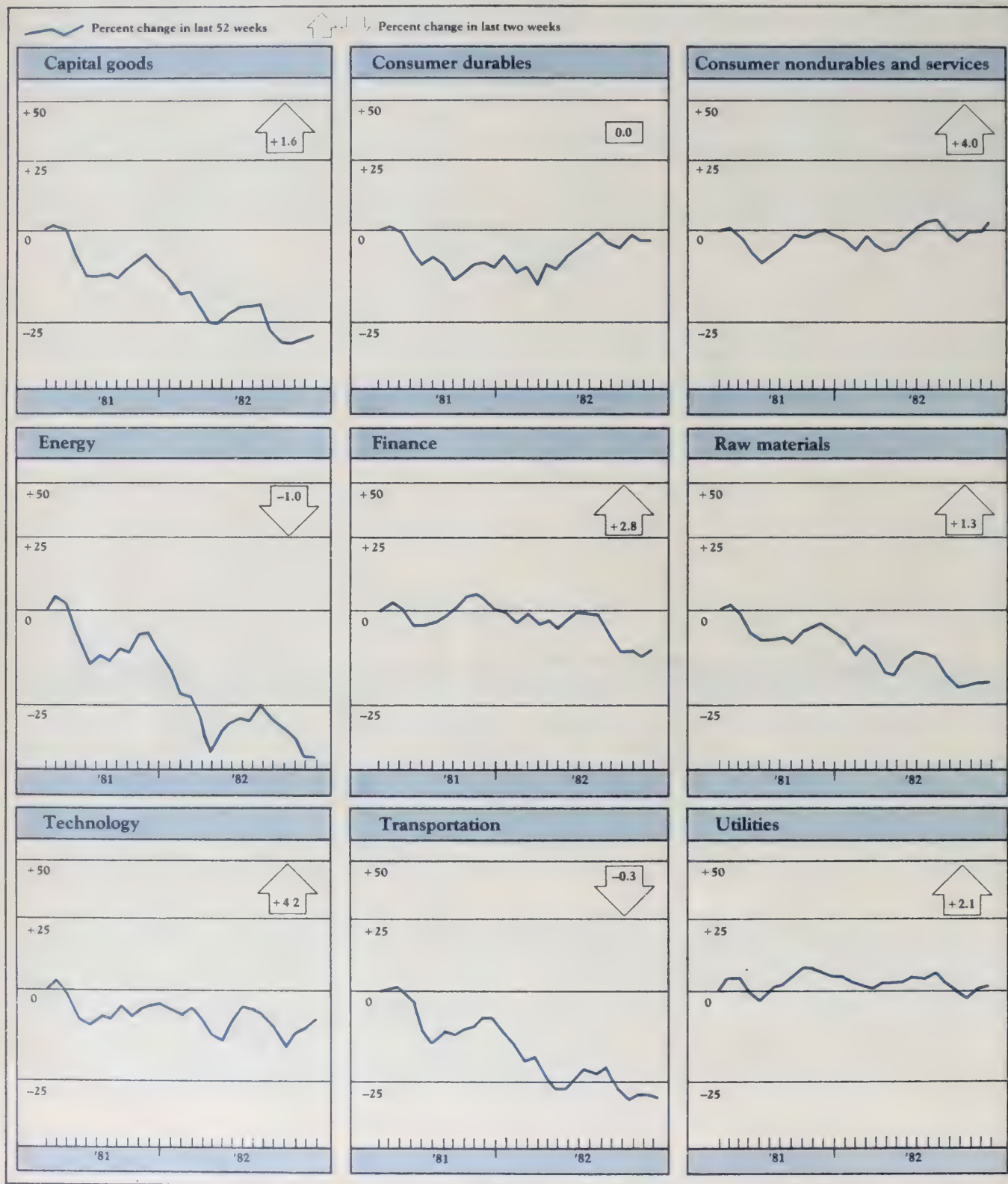
Where The Action Is

Positive signs. During the last two weeks both utilities, up 2.1%, and consumer nondurables and services, up 4%, moved into plus territory for the 52-week period. This is the first time in months that more than one industry group is ahead for the full 52-week span.

The best-performing sector, however, was technology, which moved ahead 4.2%. Over the past month the high-

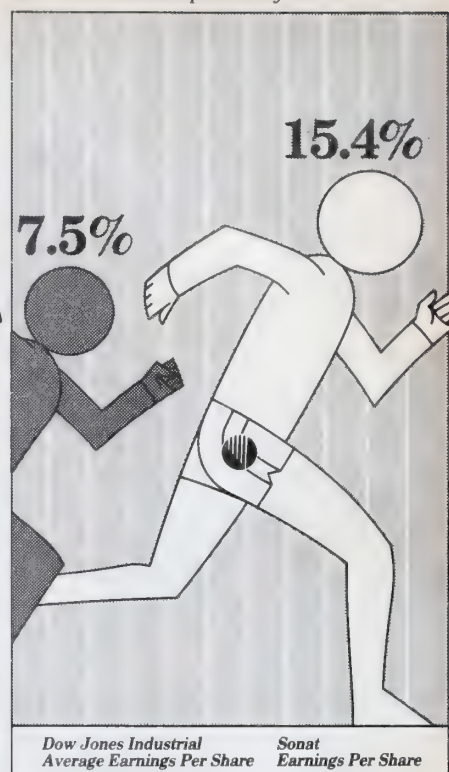
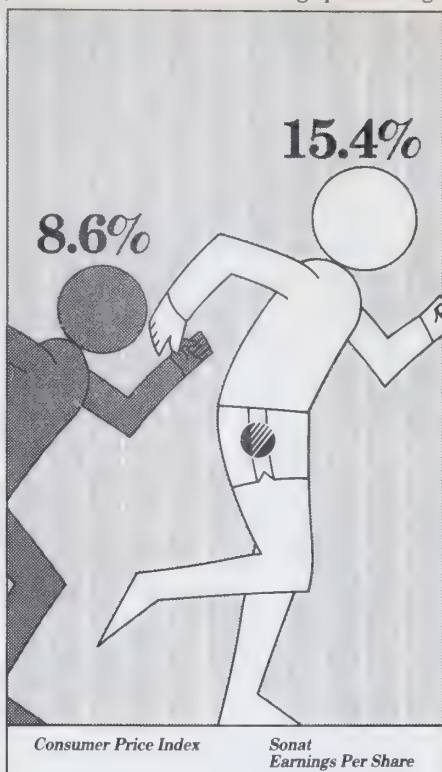
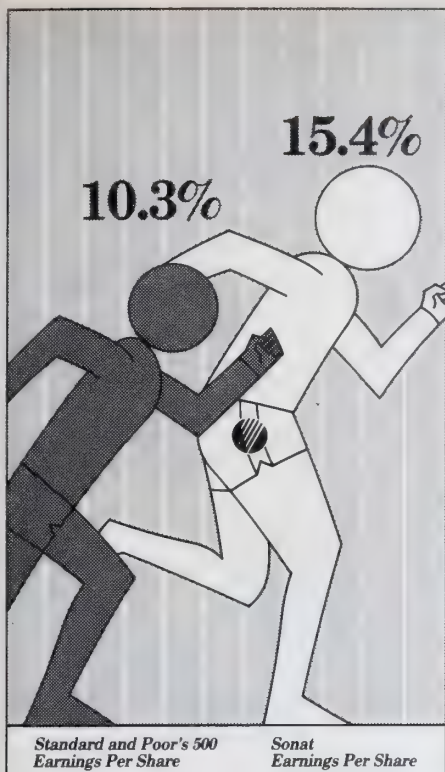
tech stocks advanced almost 6%. Having been hard-hit in the decline, this group is still behind its year-ago level, but if it continues its recent momentum it may break the barrier that has stymied it for more than a year.

Three sectors failed to gain ground over the last two weeks. Still, only two sectors, transportation and energy, ended up in the red. Their setbacks were minor.



Note: All data for periods ending 7/23/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Sonat outpaces the growth rates of the common indices: Earnings per share grew at 15.4% over the past ten years.



What do you call a company that outpaces the S&P 500, the CPI and the DJIA?

SONAT

There are many companies talking about their recent performance these days.

But when considering companies with strong growth over long periods of time, the list gets shorter. Has the company shown strong, consistent growth over 20, 10 or even 5 years?

Sonat has. We're a company with 22 consecutive years of increased earnings per share. We've paid a dividend every year for the past 45 years.

Sonat is a leader in energy, energy services and resources across the U.S. and overseas. We have assets and revenues of over \$2.6 billion. And our earnings increased 18% in 1981.

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A Forbes Special Advertising Supplement On
The Various Types Of IRA Tax-Shelters Avail-
able Today. To Be Published In the November
22, 1982 Issue. Closing Date: September 27.

Editorial Concept

As a result of the Economic Recovery Act of 1981, some 50 million wage-earning Americans became eligible this year to set up Individual Retirement Accounts (IRAs). Even though only half of those eligible take advantage of the opportunity to shelter \$2,000 each year from current taxes, this still will mean a new market of at least \$50 billion annually for institutional investors from IRA users.

No wonder that advertising media have been flooded in recent months with announcements from a broad variety of institutions offering an even broader variety of investment vehicles for IRA customers. Mutual funds, brokerage firms, commercial banks, savings and loan associations, thrift institutions, insurance companies—literally thousands of institutions have filled acres of advertising space, as well as the airwaves, with sales messages about the particular advantages of the IRA plans they are sponsoring.

One result of this nationwide selling effort has been a considerable amount of confusion among potential IRA users about which type of institution is offering which type of IRA service—and why.

To help millions of Americans make *informed* decisions about IRA tax-shelters, the various products available and the institutions who offer them, Forbes will publish a special advertising supplement devoted to the subject of IRAs in the upcoming November 22, 1982 issue.

Editorial Outline

The purpose of the Forbes IRA special advertising supplement is to present an objective review of the elements each individual should consider before deciding where and when to open an IRA. It also will include a report on the different kinds of IRA vehicles being offered by the separate kinds of institutions. The text for the supplement will answer such questions (among others) as:

- Who is—and who is not—eligible for an IRA?
- How much income can be sheltered from taxes in an IRA?
- When are IRA contributions due from the taxpayer?
- How can such contributions be made?
- If a spouse works, can both taxpayers use IRAs?
- What is a rollover IRA?
- Can IRAs be used even though the taxpayer is currently using a Keogh plan?
- How significant, in terms of available retirement dollars, is the tax-deferral provision of an IRA?
- What types of IRAs are best suited for interest-increment growth, for income, for capital appreciation?
- Why investors should be aware of the various kinds of IRAs that will produce optimum results in conformance with changing financial needs dictated by life-changes?

The Funds

Mexico Fund's price has dropped 75% since its market debut last year. Will a postelection rally end its siesta?

Bargains on the Bolsa

By Carol E. Curtis

FORGET LOW-P/E STOCKS, here's a low-P/E country: Shares on Mexico City's Bolsa are now selling at an average multiple of 3 times earnings. That's just about the cheapest price of any major exchange in the world. But if you want to take a south-of-the-border flier there's a way to do it even cheaper.

Last June, Bache, Merrill Lynch and

Salomon Brothers helped raise \$112 million to launch the closed-end Mexico Fund. It invested the money in blue-chip Mexican stocks, but with the oil glut and a peso devaluation, share prices collapsed. Today, Mexico Fund's shares, priced initially at \$12, are selling for around \$3—a 15% discount from net asset value.

That is probably the biggest first-year drop of any stock fund since the Depression, but it may spell opportu-

nity. "You can really buy it at 2 times earnings," says Thomas Herzfeld, a Miami broker who specializes in closed-end funds. "You'd have to have a revolution for the Bolsa to go any lower."

The 28 companies in Mexico Fund's portfolio include leading banks, retailers and consumer goods companies. Among the holdings: Aurera, S.A.; Bancomer, S.A.; and Grupo Pliana, S.A. Conspicuously absent is Alfa, the \$1.3 billion conglomerate engaged in a much-publicized struggle for survival. While the Bolsa index has fallen by almost two-thirds, the fund's net assets have dropped by just 38%. "The fund has substantially outperformed the Bolsa because of its high-quality holdings," says José Luis Gomez Pimienta, the dapper Mexican who oversees the fund's portfolio.

The fund's boosters put considerable emphasis on politics. Mexico's new president, Miguel de la Madrid, takes over Dec. 1. His program for improving the economy is likely to generate at least the promise of better times, and traditionally a new president has encouraged the Bolsa. Also, while the oil price slide may not have bottomed out, Mexico remains one of the richest sources of petroleum in the world: Its 57 billion barrels of proven reserves rank fifth behind Saudi Arabia, Kuwait, the Soviet Union and Iran. Optimists reason that sooner or later the value of those oil riches will be recognized.

For now, however, the Bolsa has the high interest rate blues. To slow the outflow of pesos to high-yielding U.S. investments, interest rates in Mexico have gone sky-high. Money market instruments, for example, pay 53%; commercial paper yields 58%. "Who is going to put money in the stock market when he can get yields like that on a short-term basis?" asks Jaime Campbell, a broker at Mexico City's Casa de Bolsa Interamericana. Paying 58% to borrow money, of course, also puts a tremendous squeeze on corporate profits.

Will the fund come back? A managing director at one of the fund's underwriters says: "This is the time to start dusting off your wallet."

Less sanguine, William Holzer, a senior analyst in the international division of Scudder, Stevens & Clark, thinks investors should steer clear of the fund until oil prices rise and U.S. interest rates drop. He doesn't think that will happen until at least mid-1983. But even Holzer concedes: "The public is better served by reading about the fund when it sells for \$3 than when it was selling for \$12." ■





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THE NEWS MAGAZINE FOR THE
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Statistical Spotlight

Here's a way to get high-risk leverage in some fledgling growth and cyclical companies. But proceed with caution: What goes up fast can just as easily come down faster.

Is your optimism warranted?

By Paul Bornstein

IF YOU THINK Wall Street has finally bottomed, then take a look at the table below. It lists 45 widely traded warrants, and investing in them is one high-risk way to maximize your leverage if a bull market really is upon us.

Warrants, for the uninitiated, are

rights to buy stock at a fixed price directly from an issuing corporation. They are also what economists call "wasting assets"—expiring worthless after a fixed date in the future. American Express, for example, has 1.8 million warrants outstanding that allow holders to purchase its shares for \$55 anytime until 1987. Today those warrants trade for 9 $\frac{3}{4}$ and American Ex-

press common trades for 38 $\frac{1}{4}$. So, in effect, buying a warrant expecting to exercise it is a bet that the shares will rise more than 26 $\frac{3}{8}$ points over the next 4 $\frac{1}{2}$ years.

Don't confuse warrants with options. Both are rights to buy stock at a fixed price sometime in the future, but options involve shorter time spans—nine months or less.

High risk, yes—high reward, maybe

The 45 warrants below offer an opportunity to buy stock in the future at guaranteed prices. These leveraged investments can offer impressive gains if share

values rise—and total loss if they don't. The required stock appreciation can be quite high, but conversion is still possible with the distant expiration date.

Where warrant trades	Company/principal business	Expiration date	Common shares per warrant	Exercise price per share	Recent price of warrant	52-week price range of warrant	Recent price of common	Reqd stock appreciation ¹
N	American Airlines/airline	4/1/84	1.00	\$14.00	6 $\frac{3}{4}$	7 $\frac{3}{8}$ —3 $\frac{1}{4}$	17 $\frac{7}{8}$	16%
A	Acton/food processor	6/1/86	1.00	18.05	1	4 $\frac{5}{8}$ — $\frac{7}{8}$	5 $\frac{5}{8}$	239
A	American Express/financial services	2/28/87	1.00	55.00	9 $\frac{3}{8}$	15 $\frac{1}{8}$ —8 $\frac{3}{4}$	38 $\frac{1}{4}$	69
A	Atlas Corp/uranium mining	perpetual	1.00	31.25	4 $\frac{5}{8}$	8 $\frac{7}{8}$ —3 $\frac{1}{8}$	11 $\frac{5}{8}$	209
O	BSN/recreational equip	11/3/84	1.00	3.25	$\frac{7}{16}$	1— $\frac{3}{8}$	3 $\frac{1}{8}$	18
O	Balance Computer/computer services	2/5/85	1.00	2.50	$\frac{3}{8}$	$\frac{1}{16}$ — $\frac{1}{4}$	2	44
A	Beltran/food distributor	6/1/86	1.00	13.92	$\frac{3}{4}$	2 $\frac{1}{4}$ — $\frac{3}{4}$	3 $\frac{3}{4}$	291
O	Bio-Response/medical services	10/16/84	1.00	4.00 ²	2 $\frac{1}{8}$	5—1 $\frac{7}{8}$	4 $\frac{1}{2}$	36
N	Charter/petroleum, insurance	9/1/88	1.00	10.00	4 $\frac{1}{8}$	6 $\frac{1}{4}$ —2 $\frac{1}{2}$	8 $\frac{1}{4}$	71
N	Chrysler/automotive	6/15/85	1.00	13.00	2 $\frac{3}{8}$	3 $\frac{5}{8}$ —1 $\frac{1}{8}$	7 $\frac{7}{8}$	98
O	Codenoll Technology/electronics	9/10/88	0.50	8.00	1 $\frac{1}{2}$	3 $\frac{7}{8}$ —1 $\frac{1}{2}$	6 $\frac{3}{4}$	41
O	Compact Video/video equip rentals	12/4/82	1.00	12.00	$\frac{1}{4}$	15 $\frac{1}{2}$ — $\frac{1}{4}$	4	206
O	Covington Technologies/building	8/15/84	1.00	8.00	$\frac{1}{4}$	$\frac{1}{4}$ — $\frac{1}{16}$	$\frac{1}{16}$	915
O	CP Rehab/medical services	8/15/85	1.00	4.00	6 $\frac{1}{4}$	9 $\frac{1}{4}$ —4 $\frac{1}{8}$	10 $\frac{1}{4}$	0
A	Damson Oil/oil, gas explor and dev	4/1/83	1.00	14.72	1 $\frac{3}{4}$	8 $\frac{5}{8}$ —1 $\frac{1}{4}$	6 $\frac{3}{8}$	149
P	Diversified Inds/metals trading	5/14/83	1.00	9.25	$\frac{1}{8}$	$\frac{1}{8}$ — $\frac{1}{8}$	2 $\frac{1}{8}$	341
N	Eastern Air Lines/airline	10/15/87	1.00	10.00 ²	2 $\frac{3}{8}$	5 $\frac{1}{2}$ —2 $\frac{1}{4}$	5 $\frac{1}{4}$	140
N	First Pennsylvania/bank holding	5/8/83	1.00	20.00	$\frac{11}{64}$	$\frac{13}{16}$ — $\frac{1}{8}$	2 $\frac{3}{8}$	602
O	GEICO (Govt Employees)/insurance	8/1/83	2.08	24.00	6 $\frac{1}{2}$	15 $\frac{1}{2}$ —6	22 $\frac{1}{4}$	37
O	Genetic Engineering/medical research	1/14/84	1.00	7.00	1 $\frac{1}{8}$	3 $\frac{3}{8}$ — $\frac{3}{4}$	3 $\frac{3}{4}$	130

O Over-the-counter A American Stock Exchange N New York Stock Exchange P Pacific Stock Exchange

¹ Required stock appreciation is the percentage gain necessary for the common stock price to equal the sum of the exercise and the present market price of the warrant. ² Company announced the exchange of certain corporate bonds usually at par in lieu of cash when exercising warrants.

Sources: Value Line Options & Convertibles, FORBES

High risk, yes—high reward, maybe

Where warrant trades	Company/principal business	Expiration date	Common shares per warrant	Exercise price per share	Recent price of warrant	52-week price range of warrant	Recent price of common	Reqd stock appreciation ¹
A	BF Goodrich/tire and rubber	8/31/83	1.00	\$30.00	1 3/4	3 3/8 - 1	18	74%
A	Grant Industries/mechanical slides	7/28/86	1.00	11.36	1 1/2	3 - 1 1/8	8	61
N	Greyhound/multi industry	5/14/83	1.00	23.50	3/4	3 1/2 - 5/8	1 3/8	85
O	Kenai/oilfield services	7/15/85	1.00	21.33	1 3/4	9 - 1 3/8	6 1/4	269
O	Lomak Petroleum/oil and gas drilling	6/18/85	1.00	1.25	3/4	1 - 3/8	1 3/8	23
O	Lorimar/TV programming	10/15/91	1.00	15.00 ²	2 1/4	3 1/4 - 2 1/4	8 3/4	97
N	Mattel/recreation	4/5/86	1.00	4.00	11 1/2	16 1/4 - 3 3/8	15 1/2	0
O	Muse Air/airline	4/30/86	1.00	16.00	2 1/8	7 - 1/2	5 1/8	254
P	Norris Oil/oil, gas explor and dev	10/14/84	0.50	7.75	9/16	1 3/4 - 5/8	5	66
O	Orbit Instrument/electronics	3/9/86	1.00	4.25	5	6 7/8 - 2 1/2	8 1/2	12
O	Patlex/laser patents	6/19/84	1.00	14.00	3 3/8	8 3/4 - 1 1/4	9 7/8	76
A	Resorts Intl/hotels and casinos	8/1/84	1.00	53.00	2 1/4	4 1/2 - 1 3/4	20 1/8	175
N	Safeguard Scientifics/electronics	6/30/84	1.00	14.50	9/16	4 1/2 - 3/8	4 1/4	254
A	Southmark/REIT	2/1/87	1.00	7.50 ²	2 1/8	3 - 1 3/8	5 3/4	67
A	Sterling Bancorp/bank holding	12/31/83	1.00	15.00	7/16	1 5/8 - 5/16	7 3/8	102
O	Syntech Intl/electronics	5/31/83	1.00	5.00	1 1/4	3 1/2 - 3/4	4 3/4	32
O	Telepictures/TV, film distributor	2/8/85	1.00	6.00	3 3/8	5 1/4 - 2 3/4	6 3/4	35
A	Texas General Resources/oil, gas explor & dev	10/1/86	1.00	28.50 ²	2 3/8	18 7/8 - 1 7/8	6	415
A	Textron/machinery	5/1/84	1.00	11.25	9 1/2	23 - 7 3/8	18	15
A	Towner Petroleum/oil, gas explor and dev	1/22/86	1.00	14.75	2 3/4	11 - 2 5/8	6 1/4	180
N	Trans World/airline	10/1/86	1.00	31.00 ²	7 1/8	9 5/8 - 4 1/4	21 1/8	80
A	Transcontinental Energy/oil, gas explor & dev	10/7/85	1.00	16.00	2 1/4	10 7/8 - 2 1/8	7 1/4	152
O	Unifi/textiles	7/1/88	1.00	14.10 ²	5	7 1/4 - 3 3/4	10 1/2	82
A	US Air/airline	4/1/87	1.04	17.31 ²	8 3/8	10 1/2 - 4 3/8	17	51
A	Warner Communications/recreation	4/30/86	1.00	55.00	16	23 3/4 - 13 3/4	46 3/8	53

O: Over-the-counter A: American Stock Exchange N: New York Stock Exchange P: Pacific Stock Exchange

¹Required stock appreciation: the percentage gain necessary for the common stock price to equal the sum of the exercise and the present market price of the warrant. ²Company allows the exchange of certain corporate bonds usually at par in lieu of cash when exercising warrants

Sources: Value Line Options & Convertibles; FORBES

There's another important distinction: Option trading is strictly among speculators, which means that for every winner there's a corresponding loser. Not so for warrants, since they are used as a means of raising capital and actually represent a claim on corporate performance.

Businesses with warrants on their books aren't likely to be blue chip corporations. Instead, our list is chock-full of emerging growth and cyclical companies. They issue warrants as "sweeteners" when they want to raise capital, effectively lowering their cost of debt or equity. Alternatively, more established firms—such as American Express—occasionally come out with warrants as part of a takeover package.

Smart investors, however, never set out specifically to buy warrants. Instead, once they decide a stock is worth owning, they check to see if warrants are available—perhaps on better terms. Here's how such logic can work. Chrysler's shares now sell at 7 7/8. Suppose you believe that the company will continue its turnaround and make \$2 a share in 1983, as predicted by some analysts. Chrysler common might well go up to 22, its 1977 high on similar earnings.

At that time Chrysler warrants—which are selling for 2 5/8, expire in June of 1985 and have a conversion price of \$13—should be trading for at least \$9. Chrysler pays no dividend, so compare the relative returns: If you buy stock your gain will be 179%, but if you buy warrants it will be 243%.

Actually, the potential return on those Chrysler warrants is probably even better. When a stock rises above the warrant conversion price, speculators say the warrant is trading "in the money." Then it usually continues to move with more volatility than the underlying stock and trades at a premium over the straight conversion price.

Consider Mattel. Its warrants allow owners to buy stock for \$4 a share, a price that Mattel passed in 1976. Spurred by the potential of video games, its stock now sells for 15 1/2. The warrants, however, sell for 11 1/2—exactly the same as their pure conversion value. So why buy warrants? Look at the marvels of leverage. Mattel common has moved up 41% this year, while the warrants have gained 59%. Sadly, however, this works going down, too. Acton Corp. common dropped 53% in the same period, but its warrants fell 71%.

As warrants get closer to their expi-

ration dates and the likelihood of conversion becomes remote, the price usually gets lower and lower. Some become pure speculation. Covington Technologies, for example, a California-based construction company, is a particularly long shot. Warrants to buy its stock with an exercise price of \$8 and a 1984 expiration date are available for just 25 cents. No wonder. Covington common, which traded as high as 8 5/8 in 1979, now sells for 81 cents a share. Then there's First Pennsylvania Corp. If you think it can solve its banking problems by May 1983, plunk down 17 cents for the right to buy stock at \$20 a share—7 times today's price.

Now, hold on to your hat. In situations in which it looks like warrants might not be exercised, there is always a chance that the issuer might change its conditions—extend the date or lower the exercise price. After all, converting warrants brings equity into a company, and treasurers don't like the possibility for new capital to disappear. In May, for example, B.F. Goodrich extended its warrants an extra year, to Aug. 31, 1983.

Moral: Every warrant is different, so be sure you know what the fine print says before you invest. ■

Taxing Matters

Some had news for conglomerates hoping to get a tax break in consolidating earnings from life insurance subsidiaries.

Life's tribulations

By Eamonn Fingleton

RARE IS THE FULL-BLOODED conglomerate these days that doesn't have a life insurance company under its wing. Teledyne, ITT, Avco, Loews—all of them love the chance to play God with those massive investment portfolios while enjoying the traditionally steady life earnings stream. And since the Tax Reform Act of 1976 they have all looked forward to the day when they would be allowed to play off life and nonlife earnings and losses for tax purposes.

But now the Internal Revenue wants to dash those hopes with some unexpectedly tightfisted rules on taxing diversified companies with life insurance interests. The problem centers on consolidation. For the first time, life insurance earnings can be stirred into the consolidation pot—but the rules have turned out to be so restrictive that the accountants are feeling boxed in.

Some of the nation's most acquisitive companies have been confidently waiting for a tax windfall—a range of companies such as American Express, which owns Fireman's Fund, Sears (with Allstate Insurance) and ITT (with Hartford).

Most companies are still too uncertain to be willing to discuss with FORBES the effect of the IRS rules. But some back-of-an-envelope sums from the Prudential Insurance Co. give the flavor. As with most multiline insurance companies, its life business is profitable, but property and casualty have recently been a disaster. Even after adding in profits from Bache, the Pru's newly acquired stock brokerage



subsidiary, the nonlife side was underwater last year. So the Pru would dearly love to be allowed to offset nonlife losses against life profits. According to Prudential Vice President and Associate Controller Jeremy Judge, the Pru could have saved about \$10 million in taxes if it had consolidated under "reasonable principles."

The trouble is, the new rules are unreasonable, according to Judge. Why? He says: "Sure, we would get some immediate relief if we consolidated. But the catch is we would have to consolidate forever after. We are worried that in future we might have losses in some of our life insurance business—in perhaps a new subsidiary. Under the consolidation rules, these would be effectively unusable, whereas if we remain unconsolidated they can at least be used against future profits of the subsidiary concerned." Inquire further and you get lost in some of the most impenetrable

jargon known only to tax accountants—a thicket of Phase Ones, Phase Two Positives, Phase Two Negatives and Corridor Situations.

This, according to Coopers & Lybrand Tax Partner Gerald Lenrow, is one of dozens of examples of how the new rules for life insurance are a lot tougher than the rules for ordinary consolidations.

He cites also the transitional arrangements in switching to consolidation. "Under normal rules, a long-standing subsidiary's unused losses for years immediately before consolidation can generally be used to offset tax on a parent company's profits upon consolidation. But if the parent is a life insurance company, the subsidiary's losses are unusable."

Another problem is that, at most, only 35% of a nonlife company's losses will be counted against a life company's profits.

Lenrow comments: "Each of these points in itself may not seem like much, but taken together they are an enormous burden. It is a travesty. In most cases the possible penalties later on of consolidating will encourage most life companies to continue to have their earnings taxed separately. The 1976 act has changed almost nothing."

Stalemate

Poor Robert Dole. In April the Republican senator was grumbling that President Reagan's announcement of new tuition tax-credit plans came at an inappropriate time. Why give tax money back to the taxpayer when Congress was having such a hard time cutting government spending? By June 29, however, the senator realized the grass roots popularity of the proposal, pointed out by FORBES nearly a year ago, and he was sponsoring the President's legislation in the Senate. Recently Dole held hearings on the bill in the Senate Finance Committee.

Dole's bill provides a tax credit equal to 50% of a year's tuition, with a maximum credit of \$500 available by 1985. Unlike other proposals, this one applies only to elementary and secondary schools. But even without college credits, the latest bill could cost around \$4 billion annually by 1987, the Congressional Budget Office estimates.

Vocal support from Dole and the President may not be enough to overcome the bill's problems, however. Oregon's Senator Robert Packwood, a sponsor of bills that didn't make it through the last three Congresses,

says he won't launch another wearying campaign for tuition tax credits unless the Administration exercises the same kind of legislative muscle it used to get the AWACS sale approved. And New York's Daniel Patrick Moynihan, Packwood's cosponsor, opposes tuition tax credits unless civ-

il rights protections and tax refunds for people too poor to use credits are built in.

So it should be a hot summer for Robert Dole and the Administration's tuition tax-credit bill. "We'd like to put it to rest," says Arnold Fege, of the National Coalition for Public Educa-

tion, which has begun a nationwide antitax-credit petition drive. "But the private-school lobbies are among the most vociferous and best financed there are. Tuition tax credits won't go away."

Nor are we likely to see them enacted, this year, at least.—Karen Cook

Numbers Game

So those red-flag "subject to" opinions are often misunderstood, even by bankers and brokers. Is that any reason to junk them?

Needed: How-to for "subject to"

By Jane Carmichael

Last November, when the American Institute of Certified Public Accountants began its latest campaign to abolish those warning-flag "subject to" clauses in auditors' opinions, one of the reasons the association gave was that the opinions could be misunderstood or misused (FORBES, Nov. 23, 1981). A "subject to" is a clause in the auditor's letter that says, in effect, "Subject to the outcome of thus-and-so contingency, which no one can predict right now, these financial statements fairly reflect the condition of the company." It is the auditor's way of alerting the reader to a problem area.

At a recent open meeting on "subject to" for users of financial statements—mostly analysts and bankers—the AICPA proved its point quite dramatically. Nearly all of the users at the meeting said they thought the clause was valuable, but some of the reasons they gave for thinking so made it abundantly clear that they frequently did not understand what "subject to" means.

Some users believed that auditors have inside information in addition to what is disclosed in the financial statements and that "subject to" can be used by them to tip the reader off to that fact. AICPA members shook their heads in dismay; according to

auditing rules, the auditor must make management disclose all such relevant, material information. Other users thought the "subject to" opinion meant that management and the auditor disagreed over what should be disclosed. (In that case, though, the auditor would be required to give a different kind of opinion, okaying the financial statements "except for"—not "subject to"—the disputed item.)

In fact, "subject to" only indicate uncertainty, unpredictability. Amid all this confusion, the AICPA is asking itself whether it is even the auditor's responsibility to point out uncertainty, and the debate is heating up. Quite understandably, this alarms some readers. At one point in the meeting, a representative of the American Bankers Association cried out in exasperation, "What is so wrong with giving the user a red flag in addition to full disclosure?" Whereupon a representative of Canada's version of the SEC, which abolished its version of "subject to" last year, retorted, "It's not the auditor's job to provide an easy walk through the financial statements. You [Americans] have too much spoon-feeding by the government and the bureaucracy—you're removing the average person's ability to think."

With all due respect to the Canadians, if the AICPA meeting with "subject to" users proved anything, it is

that the users need more help rather than less in reading through annual reports. If they don't understand a phrase that is designed to help them, maybe the solution is to define the term better rather than simply to throw it away.

Accountants on the couch

Next time you talk to your accountant, be nice to him. Chances are he has a low opinion of himself. In a recent survey of 51 partners of major CPA firms concerning accountants' attitudes about themselves conducted by Burke Marketing Services for Robert Half International, the executive recruiting firm, there were some surprising results:

- 69% of these partners think accountants are too numbers-oriented.
- 27% said accountants are lacking in imagination.
- 20% think accountants are poor listeners, and 22% said they are poor communicators.
- 57% said accountants are too conservative, and 37% agreed that they are weak in managerial skills.

Curiously, only 8%—four accountants—thought they would not choose accounting as a profession again.—Richard Greene

Watch it

How can you be tipped off that a company is headed for serious trouble? Peter J. Gibbons, chairman of Price Waterhouse's Bankruptcy Services Group, has an immediate response: "Look out for companies that file late. There's almost always a problem there. A company doesn't file late with the SEC if there isn't something going on."

Of course, 10-Ks must be filed within 90 days after the end of a company's fiscal year. So, if that time span has lapsed and you're still waiting for a report, call the SEC's Office of Applications and Reports Services. They watch for late filings. They don't publish the names of the dilatory, but will give you the information on the telephone.—Richard Greene

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Discount reports that the Fed is caving in. For now, the fall in interest rates has about run its course.

ONE STEP AT A TIME

By Ben Webberman



The clearest explanation I can give of Federal Reserve Board Chairman Paul Volcker's policies is this: Volcker is convinced the best way to bring interest rates down and keep them down is to prevent them from falling too rapidly. To bring them down fast would only undo all the painful progress against inflation. For this reason you can discount reports that the Fed is flooding the banking system with reserves. So don't get too excited about last month's fall in interest rates; the decline has about run its course. We're not yet ready for that long-promised bull market in bonds. It's coming, but not yet.

When he made his semiannual visit to Congress last month, Volcker, in fact, had bad news for business people who hope for a big drop in interest rates to save them from bankruptcy. No way, he said. If people are overextended or have bet too heavily on continuing inflation, it's their bad luck. Volcker wasn't being heartless. He said everything that needs to be said in defense of his policies when he declared: "I find it difficult to suggest when and how a credible attack could be renewed on inflation should we neglect completing the job now."

All this means the economy will

have to live with sluggish growth for quite some time to come. As a result of continued high interest rates, members of the Federal Open Market Committee, the group that sets monetary policy, see very little economic growth this year. Expectations of the 12 members range from a low of $\frac{1}{2}\%$ growth to a high of only $1\frac{1}{2}\%$. For 1983 their forecasts run from a low of $2\frac{1}{2}\%$ to a high of 4%.

But all this suffering is not in vain. Last February the members thought that 1982 inflation would be between $6\frac{1}{2}\%$ and $7\frac{3}{4}\%$. Now they believe it will be less than 6%, possibly as low as $4\frac{3}{4}\%$. For 1983 they are talking about an inflation rate of perhaps 4% to $5\frac{3}{4}\%$.

Hence the paradox that it requires high interest rates now to make low interest rates possible in the future. If inflation can be kept down, investors will gradually change their attitudes toward long-term bonds. If people are persuaded that inflation won't get much above 5%, yields of 12% will look irresistible.

When will this golden age dawn? Only gradually, for the policy reasons I mentioned earlier, and because of the heavy borrowing needs of the U.S. government and its agencies. But by year-end, long-term Treasuries, which currently yield 13.2%, should be yielding only 12%. That will be scant comfort to the housing industry and to the capital goods industries. Eager to rebuild their shattered profits, banks and savings and loans will try to keep their own lending rates up as long as they can.

If you are an investor rather than a borrower, how best to position yourself in all this?

As an individual, I would buy a U.S. Treasury note due in two to seven years to pin down high yields

that are available. If you can make the purchase when the Treasury has a sale, the charge from your bank or broker will be minimal. (Purchases in the secondary market tend to be expensive.) Most Treasury issues due in three years or less come in minimum amounts of \$5,000. Longer than three years, the minimum is \$1,000. Treasury bills are available only in \$10,000 chunks.

For total liquidity the current choice is between money market mutual funds and savings deposits. I tend to like savings deposits with the new "sweep" feature. These require a minimum balance of perhaps \$2,000 to be kept in a low-interest-bearing NOW account, with all cash in excess of that sum "swept" daily into interest-bearing repurchase agreements carrying the interest rate of securities of the Treasury or the federal agency that collateralizes the account. As this is written, a typical such account at First Nationwide Savings—with offices in California, New York and Florida—pays 14.1% compounded daily, for an effective annual yield of 14.68%. At Nationwide a free checking account and a free Visa card go along with the \$2,000-interest-bearing account.

In the money market mutual funds, the safest is the type that invests solely in U.S. Treasury issues. Such funds recently carried a seven-day yield of 11.46%, according to calculations by *Donoghue's Money Fund Report*. But you can get 2.29% better by going to a straight money market mutual fund, and, considering the minimal extra risk, I would take the higher-yielding fund.

Legislative update

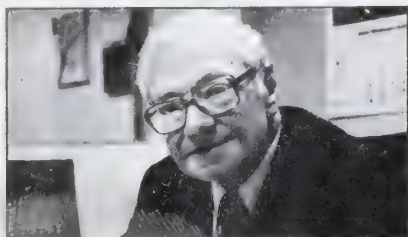
The Senate has deleted inclusion of interest on tax-exempt bonds from the tax on individuals who have substantial amounts of sheltered income—a plus for tax-exempts. The Senate did, however, retain the proposal to withhold 10% of all dividends and interest. Guess who's an unexpected beneficiary? The banks and stockbrokers. While it will cost them some extra bookkeeping, it will also create a new interest-free float. At first, observers in Washington were surprised that the securities industry didn't lobby harder against withholding—until they caught on to the float feature. ■

Ben Webberman is economics editor of FORBES magazine

When a favorite stock free-falls 35% in three months, you begin to wonder if somebody knows something you don't.

SELECTIVE SUMMER RALLY

By Heinz H. Biel



The summer rally got under way on schedule. So far, in magnitude it's still below the average gain of 7½% for summer rallies in the past decade, but the summer still has some weeks left.

It is interesting to note that this latest rise in the market was concentrated largely in the stocks that had been doing comparatively well all along, such as the foods, drugs and other consumer-oriented stocks. Most impressive was the leadership of blue chip giants like IBM and General Electric, which had come up with surprisingly good second-quarter reports. These two stocks are now selling at their best prices in well over a year, that is, since the bear market started. Investors are willing to pay premium prices for quality and relative safety.

By contrast, the groups that had been battered most severely in this bear market hardly participated in the summer rally. They continue to scrape bottom and are as friendless as they have been all along. This makes one wonder whether a final shakeout may not lie ahead.

In a recent column, I warned that earnings reports these days are so cluttered up with nonrecurring credits or writeoffs and other accounting adjustments that they can be terribly misleading unless one

reads the footnotes, too. For example, the other day the *New York Times* headlined the second-quarter earnings of R.J. Reynolds Industries as a "big jump" of 48.2%. The *Wall Street Journal*, on the other hand, correctly excluding a special gain of \$91.5 million that stemmed from an arbitration award payment by the Kuwait government for its 1977 nationalization of certain Reynolds properties, reported that operating net rose 2.3% in the second quarter, on a 5.1% revenue increase. Not exactly a big jump.

Bear markets have a nasty way of shaking up (or rather down) even the stocks of companies whose prospects seem clearly visible and favorable. This happened, for instance, to that old pet of mine, *General Instrument*. It had been a star performer in 1980-81 when it was split, deservedly, 3-for-1. But then this year the bottom dropped out. When a favorite stock free-falls 35% in a matter of three months, you begin to wonder if somebody knows something that you don't know.

Holders can be reassured that nothing is wrong with GRL—"Girlie," as General Instrument is affectionately known. It's not just that earnings growth is continuing at the impressive rate of recent years, but that GRL's balance sheet is so admirably strong, just as you would want it to be at a time when so many companies are on the verge of a liquidity crisis and are screaming about the high cost of borrowed money. GRL has \$142 million in the till, which is more than 3 times its total long-term debt of a mere \$40 million, and about 75% of total current liabilities. That's the financial position to be in if you want to spend a lot of money to keep growing.

Earnings in the current fiscal year, ending next February, should

show another 20% gain over the preceding year, at least \$3.60 a share, vs. \$3.01, \$2.49, \$1.97 and \$1.41 in the four preceding years. And while undoubtedly there will be another dividend increase, maybe from the present quarterly rate of 10½ to 12½ cents, or all the way to 15 cents, it will not produce a meaningful yield. Income-seeking investors should buy intermediate-term bonds or Treasury notes. Stocks should be bought for their appreciation potential, and I think GRL has it.

While GRL has participated nicely in the summer rally, recovering from its June low of 33 to about 39 at present, *Warner Communications* (46½) has not, even though its earnings continue to grow at a rate that is little short of spectacular. What is wrong?

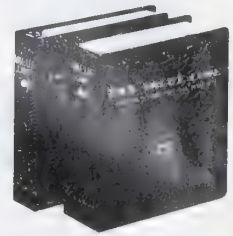
Actually nothing, at least not near term. The item that is producing the soaring profits for Warner Communications is Atari, a consumer electronics company that dominates the wildly growing market of video toys. Nervous investors, who have caused the price of the stock to fall from a high of 63 to the low 40s, fear two things: 1) that competition will cut into Warner's share of the market; and 2) that the growth of the market for video games will slow down.

I can't make a judgment on that, but Warner's management—might they possibly be biased?—does not think so. The company also believes that the best way to spend the profits rolling in from Atari is to buy back as much as 10%, or some 6 million shares, of its own stock, which management believes is now a great bargain.

Only time will tell who is right. And this, of course, gives the stock a speculative tinge that makes it unsuitable for conservative investors. Meanwhile, earnings for 1982 are estimated at around \$5.50 a share, up well over 50% from the year before. Most probably there will also be an increase in the present \$1 dividend rate, but, as in the case of General Instrument, this would be the very last reason to buy the stock. Although I may be behind the times, never having enjoyed the fascination of playing a video game, I view Warner as an appealing speculation. ■

Heinz H. Biel is a vice president of the NYSE and former partner of law firm Montgomery Scott.

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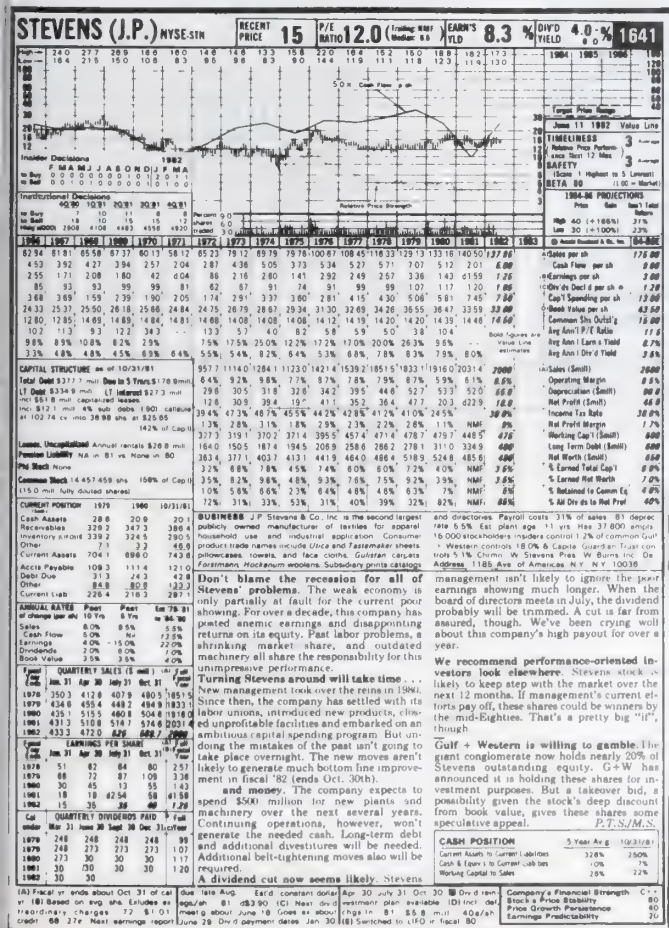
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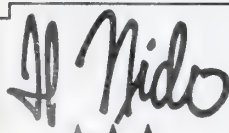
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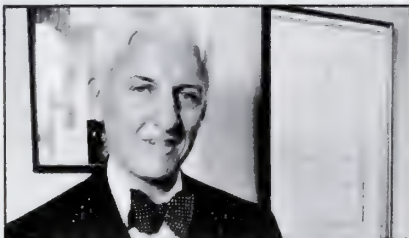
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Financial Strategy

*Are Germans becoming anti-American?
Or is that the wrong question?*

THE REAL GERMAN PROBLEM

By John Train



"I can't ever remember a time since World War II when I thought that there was less understanding in America of what the problems were here in Germany." The speaker, a portly man of about 58, was the mayor—the *Bürgermeister*—of a medium-size city in the southern part of West Germany. We were sitting in a *Keller*—a huge underground beer hall—near the main cathedral square. I had just asked him about anti-Americanism in Germany. He had turned the question around:

"There are a lot of our young people for whom your conception of postwar history would be a work of science fiction. They don't remember World War II. They don't remember the Marshall Plan, or if they have heard about it, they've been taught that it's a device that the U.S. used to make Europe absorb the overproduction of its industries. A generation of young leaders is coming along here for whom German nationalism is the only legitimate aim of policy—just as it is in America, I might add—not a system of alliances they perceive as imposed by the U.S. to serve U.S. purposes."

The mayor is a hero by any standard. A graduate student at the out-

break of World War II, he joined the German navy and became an officer. Eventually, he became involved in an anti-Hitler plot, got arrested and was still being interrogated as the war ended. After being freed by the American Army, he completed his doctorate. Now he governs a large industrial town and is considered one of the more influential Christian Democrats. A firm friend of the West, he believes in the concepts behind NATO and the Common Market and is deeply concerned by the change in orientation of his younger compatriots. He went on:

"The watershed of our respect for America was Vietnam. Some of us thought the war was worth fighting, some of us didn't. But never would we have fought it the way you did. The spectacle of American allies and officials hopping like rabbits off the top of your embassy when Saigon finally fell was on every European television screen, and obviously weakened our faith in your patronage. Then, our officers are terrified by what they see, or at least used to see, in the American Army. The idea of your training manuals having to be rewritten in comic-book style, as though for children!

"Our peace movement today is like yours during Vietnam: fanned and indeed penetrated and manipulated by the Russians, but based on authentic feelings.

"The real German problem, both yours as leaders of an alliance and mine as a politician, is that our young people are experiencing a tremendous resurgence of the feeling of German national identity. Nationalism is returning, not in the old form of Prussian militarism or fascist adventures, but expressed in neutralism, peace campaigns and a craving for unification.

John Train is president of Train, Smith, Investment Counsel, New York, and the author of The Money Masters and Dance of the Money Bees.

MONEY & INVESTMENTS

"Your television probably showed people marching against the extension of the Frankfurt airport to make it long enough to carry bombers. They must have looked like peaceniks. However, they were also just German nationalists, for whom deploying the Pershing II is a device to export World War III to Europe, to take the heat off America. So some of my own political supporters think that it's prudent for us slowly to scale down our commitment to the alliance, and work instead to bring about the reunification of Germany. If that means correspondingly weakening NATO, too bad.

"Another thing. On my trips to America, I am terribly dismayed by how little the new generation of Americans knows about Europe.

"American officers tell me that the Germans make them feel like second-class citizens. Well, in Germany the Americans *are* second-class citizens. At the end of the day Americans seem to feel a compulsion to dress in rags and wander around town in that getup. At the same time of day the German worker takes off his overalls and dresses up neatly and, indeed elegantly, to walk about with his wife and family. In a way, it's the post-World War II situation reversed. In those days Americans cruised around in big cars with cameras dangling from their necks, and took pictures of the shabby Europeans in the ruins of bomb-damaged houses. Now the shabby American finds himself surrounded by Europeans who are reaping the fruits of 35 years of diligent work. He's poor and they are rich.

"All in all, nationalism and neutralism seem to offer a prospect of peace that is immensely appealing. I explain the dangers, talk about the success of the alliance. But to many of our people the chief danger is that war might be brought to our backyard by American missiles, while our prosperity depends more and more on our trade with the East."

So is Germany becoming anti-American? That's probably the wrong question. As the *Bürgermeister* (and others) points out, the Germans are simply becoming more narrowly pro-German. So we should not try to push them too hard, or they will just refuse to play our game. ■

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WHAT WILL WE HAVE TO IMPORT NEXT, COLLEGE GRADUATES?

Ever since World War I, most of the rest of the world has come to the United States for the latest in technology. Now there's a real danger that the pendulum is swinging the other way. We're importing know-how in many fields instead of exporting it.

Unfortunately this situation will get progressively worse. Unless we

protect American colleges from inflation. For our colleges and universities supply most of the important basic research upon which technological progress is built.

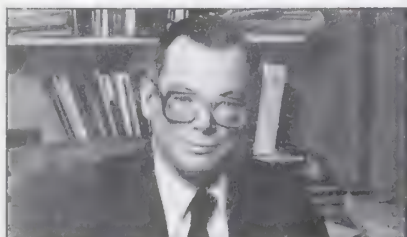
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Is there a way out from these ruinous interest rates? Ronald Reagan might take a lesson from Richard Nixon.

A GLIMMER OF HOPE

By Ashby Bladen



Ever since President Reagan's election I have been saying that there is no hope. He has embraced California economist Arthur Laffer's painless solution to our financial problems, and I have told you several times in this column why I believe that it cannot work. But now I think I see a glimmer of hope.

The situation is roughly analogous to the summer of 1970, when President Nixon and the Fed had painted themselves into a corner from which there also appeared to be no escape. Nixon was supporting the Fed's anti-inflationary tight money policy, but after the failure of the Penn Central Railroad, it was obvious that that policy was about to drive large companies into bankruptcy by platoons. However, at the beginning of June a knowledgeable friend, Wesley Stanger, picked up a rumor that President Nixon was going to recommend an incomes policy—that is, price and wage controls, "jawboning" or some variant thereof. I said to myself, "That is the only possible escape."

I knew that an incomes policy would fail ultimately, but in the short run it would serve as an excuse for relaxing the Fed's ruinously tight monetary policy. And that is

just about the way things actually worked out. Nixon promised to issue a series of "inflation alerts"—a mild form of jawboning against excessive wage and price boosts. That allowed the Fed to relax its policy, and the incipient panic subsided. The stock market staged a powerful rally, and the following year Nixon actually brought in wage and price controls.

Coming back to the present, if the Fed ever did control long-term interest rates, it certainly doesn't any longer. I have said over and over again in the pages of this magazine that as long as we are looking at a federal financing requirement of a couple of hundred billion dollars a year, interest rates will remain so high as to destroy the viability of much of the economy. President Reagan desperately needs a plausible excuse for cutting the projected budget deficits. But he has already committed himself to not going further in cutting transfer payments, so there remains only one possible solution to the deficit problem—cutting future military expenditures.

Just recently another very knowledgeable friend, Dick Francis, told me that President Reagan has recruited a committee of leading businessmen, under the chairmanship of J. Peter Grace, to study and make recommendations about cost effectiveness in the Army. Of course, there is no such thing as cost effectiveness, in the ordinary business sense, in the military. The test of an army is whether it wins or loses; and, in my opinion, the American Army, as presently organized, is a loser. That is why I have been interested in military reform for nearly 30 years.

In 1954 my job was to hang a microphone on the briefing officers at Operation Flashburn, the first big

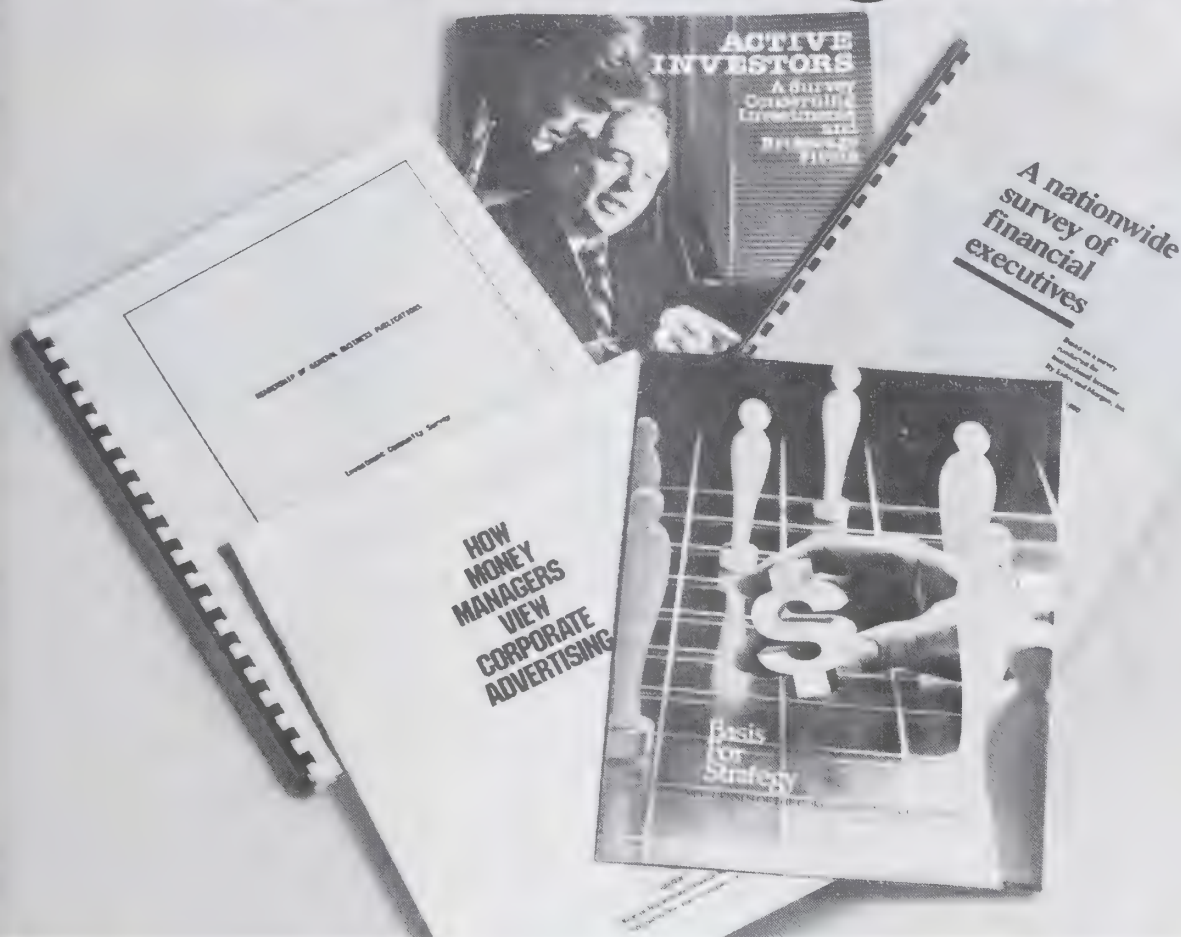
maneuver involving nuclear weapons. At the wrap-up briefing the Army Chief of Staff concluded that those weapons dictated more massive formations and closer control from the top. I differed, but, wisely for a private first class, silently. Never again will it be possible to mass a division on a one-mile front because somebody is likely to come along and drop an atom bomb on it. From now on war will be a *small unit* affair, and that calls both for highly trained units that consider themselves to be elite and for competent noncoms and junior officers who are not afraid to make decisions.

By and large, the American Army has neither of those things. Moreover, the basic system of motivation and discipline is an 18th-century one that was compatible with the technology of the Tower musket, and that depends on being willing to shoot somebody once in a while—something that, mercifully, we are no longer willing to do. The American Army is very good at destroying every other motivation, except fear, that might cause people to work effectively together.

Maintaining a hugely expensive but basically ineffective military establishment is not a smart thing to do. Bill Marquard, president of American Standard, is on President Reagan's military cost-effectiveness committee, and Dick Francis, American Standard's treasurer, is head of the task force that reports to it. I know them well, and they are both absolutely first-class businessmen. They take an appropriately broad view of their mandate, and if anybody can do the job, they can. But it is a Herculean task, and at this point I am no more sanguine about the ultimate outcome than I was about Nixon's incomes policy. However, in the short run, President Reagan can escape from the budget impasse by announcing that the committee has convinced him that the basic problems of the American military establishment cannot be solved by throwing money at them. Instead, a rethinking of the principles on which it is organized and motivated is in order. That is the only way I now see for him to retreat gracefully from the projected deficits that are causing the current ruinously high level of interest rates. ■

Ashby Bladen is a former vice president for investments of the Phoenix Mutual Life Insurance Co. and author of How to Cope with the Developing Financial Crisis.

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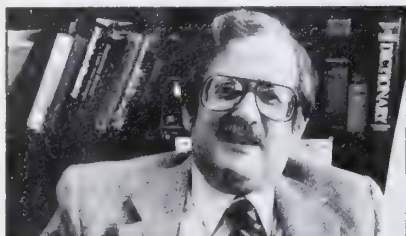
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STOCKING UP IN FUTURES

By Stanley W. Angrist



Stock index futures are now actively trading on three exchanges. They are similar to other U.S. futures contracts in that they perform the same type of price-protection and price-discovery functions. They differ from other futures contracts in that they trade on an index computed from the prices of stocks that make up a portfolio. Since the futures contract price is an estimate of what traders think stocks will be selling for at some time in the future, the futures price is not identical to the current value of the index. The other significant difference between the new contracts and most traditional futures contracts is that settlement is made in cash.

The value of each of the three stock index futures contracts is determined in the same way: The index (or price, if you wish) is multiplied by \$500. Thus, if on the last day of trading the index were to settle at 110, traders who had not closed out their positions and were short would have to come up with \$55,000 per contract to deliver to the longs.

The Value Line Composite Average Index is traded on the Kansas City Board of Trade and is an unweighted geometric average of the prices of 1,683 stocks. About 90% of

these issues are traded on the New York Stock Exchange. The Standard & Poor's 500 Stock Index, traded on the Chicago Mercantile Exchange, is based on the prices of 400 industrials, 40 utilities, 20 transportation companies and 40 financial institutions. Unlike the Value Line, the S&P's is a weighted index in that the price of each stock in the index is multiplied by the number of shares outstanding; each stock is reflected in the index to the same extent it is reflected in the market. (The third contract is based on the NYSE Composite Index and is traded on the New York Futures Exchange.)

As Donald M. Selkin, spread analyst for Bache, has pointed out, so far, two patterns have emerged with respect to stock index behavior. First, the more distant month for both these contracts will rise or fall much faster than the nearbys. This means that in a falling stock market one would have wanted to be long the nearby month while short the deferred. This is just the opposite of the spread position one would take

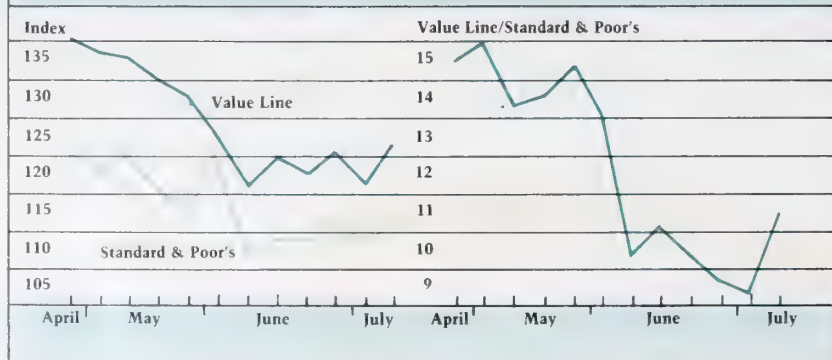
in a bear market for an agricultural commodity, but is identical to that followed when trading the precious metals. Likewise, in a bull market one would buy the deferred while selling the nearby. The probable reason for this type of action is that these futures contracts are sentiment indicators, so that in a falling market the farther out you go, the worse prices are expected to be. Just the opposite reasoning holds for rising markets.

The second notable observation in spread patterns is that the Value Line contract exhibits greater volatility than the S&P's. It will move up or down to a greater extent, given any change in market sentiment. Because the Value Line Index is unweighted, moves in smaller, more speculative issues will cause greater movement in the index as a whole than in the weighted S&P's.

From the characteristics of these indexes, it is not too difficult to devise a spread that maximizes one's profit (or loss) opportunity. If one is bullish on the market, as I am, one might try going long the March Value Line Index while selling the September S&P's Index, with the Value Line Index selling for no more than 10 points over the S&P's. (Keep in mind that each point is worth \$500.) I would risk no more than 2 points (\$1,000) on the spread from my entry point. I would look for the spread to widen at least 6 points (\$3,000) from entry. The margin on this spread is about \$1,200, while the round-turn commission would be about \$150. ■

A reward to volatility

The March 1983 Value Line Index commands a premium over the September 1982 S&P's Index for two reasons: The more distant month is always more volatile, and the Value Line Index is unweighted and thus tends to move more when sentiment changes.



Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

It seems silly to pay \$100 for a machine that converts everything to baby food.

WHY CUSTOMERS AREN'T BUYING

By Srully Blotnick



After the June slump in retail sales, economists who were predicting that the July tax cut would put some life into consumer spending were busily revising their forecasts—downward. I have even worse news for them: If sentiment among upscale consumers is any criterion, they will have some further downward revising to do.

Recently, for a corporate client, I conducted a survey of 723 upscale customers of Saks, Bloomingdale's and Macy's in New York; Neiman-Marcus and Sakowitz in Houston and Dallas; and Bullock's Wilshire and I. Magnin in Los Angeles. All of these people, unlike the population at large, are sufficiently liquid and debt free to spend if they choose. But they seem uninterested in doing so. Why? Two reasons. The first has to do with price.

"I just looked at a blouse for more than \$500," said a woman in Los Angeles. "I thought the tag was wrong. The salesclerk said it's right. Even if they mark it down by half—and I'm sure they'll have to eventually—I won't buy it, since \$250 would still be too high."

Said another, in New York: "There was a time I would have spent \$350 for a skirt. But it doesn't

make any sense to me now."

A computer engineer in Houston commented: "What I see in the stores is the same as what I see at [the local Oldsmobile dealer]: The price is way out of line for what you get. The Olds isn't worth 11 grand, and this pair of shoes isn't worth the \$210 they're asking for them."

There were numerous other examples of price resistance from these well-heeled buyers. Nevertheless, as the study progressed, it became clear that a second reason for their reluctance was even more important. Call it consumer fatigue.

The following quotes, each viewed in isolation, contain only a glimpse of the overall trend. They have to be taken together and seen as stones in a mosaic in order to capture the larger picture. What these people are trying to convey, without wanting to come right out and say so, is this: They have grown tired of the status toys on which each has spent so many thousands of dollars in the last few years.

As a woman in New York put it, speaking about her Rolex watch: "When my Cousin Amy starts shopping for one, I know it's time for me to give mine away to some charity."

A man in Los Angeles remarked about his Mercedes: "It's just not the same anymore. It doesn't give me the high it used to." How come? He replied, "Can you believe that even my barber now drives one?"

A couple in Macy's "Cellar" said, with a note of gentle self-mockery, "We could hardly wait to buy our food processor, since all our friends had one. We don't use it much." I asked them why. They responded: "It takes us 30 minutes to clean the parts, after we use it for 30 seconds. I'm sorry we bought the thing. It seems silly to pay \$100 for a ma-

chine that converts everything you put in it into baby food."

A well-dressed young executive in Dallas commented: "At first, I thought my VCR [video cassette recorder] would be real useful. You know, get the TV programs I wanted to watch on tape when I was busy, so I could see them whenever I felt like it. Well, I can't be bothered finding out *when* the shows I like will be on, so I can set the [programmable] machine to catch them. The box just sits there collecting dust; \$1,000 down the drain."

These remarks are the tip of a sizable iceberg. The people in the sample said that they were also turned off to, among other things, alligators on their shirts; Halston carpets, Halston *anything*; designer names on their jeans; Bill Blass car interiors and BB chocolates; "LV's and "G's on their luggage; and Pierre Cardin wines.

The many comments this well-off group made about "the high cost of everything" must, therefore, be reinterpreted in the light of later findings: The price resistance is based partly on boredom.

That is a radical about-face from the consumer behavior this group displayed only 15 months ago. Then, they simply bought an item that was popular in their social circle, usually devoting little or no consideration to its price.

In short, manufacturers of goods for the upper-income consumer have their work cut out for them. The affluent, upscale customer is the trendsetter in most areas of retail spending. Unless an interesting variety of new offerings can be found—and soon—this customer, now bored, will look but not buy.

When that happens, manufacturers and retailers will say that the public is pinched and times are tight. And, of course, they will be right. Many people have lost their jobs; others, who still have theirs, are scared or putting away substantial sums into Keogh and IRA accounts. Still, the number of unemployed is less than 10% of the number employed. The key to enticing those customers who have money to spend to part with it will be innovative and exciting products.

The message from these consumers to manufacturers is clear: Back to the drawing boards. ■

Dr. Srully Blotnick is a research psychologist and author of Getting Rich Your Own Way and Winning: The Psychology of Successful Investing.

So you have a bright business idea. How do you find out if it's practical?

STARTING YOUR OWN BUSINESS: PART III

By Thomas P. Murphy



Anyone can have an idea, and many people do. But how do you turn an idea into a business?

I have always thought of this as the croquet stage. You have the idea and the ball; now you have to get them through a series of wickets. Every single wicket is critical. Too much trouble getting through one or more of them is a warning; the idea may not be as dazzling as it appears.

The first wicket is need. Does somebody really need the product or service you want to offer? For example, it is not hard to imagine that retail tire dealers need a computer program to keep track of inventory. But do people need a computer program to play the five-string banjo? Maybe so, but it's a far stickier wicket. The felt need is not there.

If the need exists, the next wicket is the market. Two problems here: Can you identify who and where your prospects are? The tire dealer idea meets this criterion nicely. There are mailing lists of tire dealers available; there are trade magazines and trade associations. One can easily find out a lot about them. But the tire idea may still not get through the marketing wicket. It may flunk the second part entirely. Who calls on tire dealers to sell

them computer software? Probably nobody. That means to succeed you not only have to create the product, you also have to take over the whole distribution job yourself. That is a severe negative.

The third wicket is the degree to which a business concept is proprietary. People who haven't been through the new enterprise process think this means that the concept must be patentable. Not necessarily. One reason so many venture capitalists talk about "niche" markets is that the first company into a niche, with a reasonably satisfactory product, can usually dominate the market segment and get good profit margins. This is because the total market potential is too small to excite the avarice of larger companies, and the smaller company or individual avoids (as you should) confronting an entrenched competitor. So this wicket may not be as formidable as it at first seems.

The fourth wicket is really tough: the cost of finding out if you're right or wrong. Ideas—I don't know why—seem to fall into two categories: One is the critical-mass kind of idea. It is necessary to invest a great deal of money just to find out if the idea will work as a business. Federal Express was one of those. It was a superb idea. Nevertheless, the company nearly went bankrupt several times because it had to be big to be profitable.

The other kind of idea, and the sort I favor, is the "add-another-wing-to-the-motel" kind of business. That is, an idea that can be tested modestly and, if it works and the business grows, expanded. Beyond sparing capital, there is a second advantage to this philosophy. The entrepreneur and everyone he hires in a new business are somewhere at the bottom of the learning

curve. Mistakes are going to be made; floundering is inevitable. Getting through this teething is cheaper and easier when a business is small. Starting on the Federal Express scale is thus doubly difficult. It can be done but the risks are forbiddingly high.

Okay, so you get through the critical-mass wicket; you can test your idea at reasonable cost. What do you do next?

The next wicket is finding the information you need to test the idea. If you want to sell something to tire dealers, go talk to tire dealers. One of the more pleasant things you will discover is that most people are somehow inherently sympathetic and helpful to would-be entrepreneurs. They are curious about your ideas and commonly suggest other people to call.

Secondary sources, published material, are another approach. The place to start is the public library. There is an astonishing amount of material published in this country. The challenge is in finding it. Whatever is not available in a good business reference library is probably in the files of some trade association or trade magazine.

The trouble with this secondary—i.e., library—kind of research is that it always takes time and, since you are not a professional researcher, you may overlook something important.

Fortunately, a number of research services are now available, around 300, whose business it is to find that elusive study on "The U.S. Bottled Water Market," with projections through 1985. (Yes, it exists. It's 190 pages and sells for \$895.)

If you do not have a local information service, you might try a company called Find/svp. It is the largest in the field. Its minimum fee is \$250 and the telephone number is: (212) 354-2424.

Don't neglect this final wicket: The more information you have, the better game you will play—and the more persuasive you will be when the time comes to raise money and recruit associates for your project. I have sketched the starting course. Perhaps now it will be a little easier to move your idea through it. If it holds up, get it on paper—a business plan. This is your road map and your selling document. ■

Thomas P. Murphy heads a venture capital firm, Partnership/Dunkirk/Stanford, Conn.

We are speaking here of business support of the arts, and what it can do for your company.

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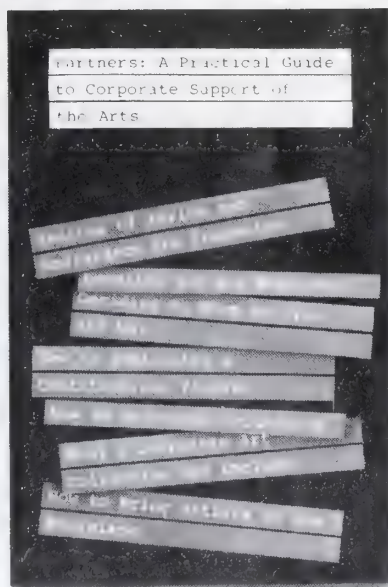
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Partners is published by the Cultural Assistance Center, Inc., a nonprofit service organization established to promote and assist cultural institutions.

Forbes/Index

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who is somebody in business
who does not read
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"The more things change. . ."
Items from past issues of FORBES

Sixty years ago in FORBES

(From the issue of August 19, 1922)

"It is tremendously serious yet isn't it farcical? The United States government asked European nations that are burst higher than a kite to step up and make arrangements to pay the billions they obtained here to fight the Germans. The astute Lloyd George now goes through the same motion. He says, in effect: 'We would be glad to wipe off the slate every dollar you owe us if America would do the same. But since America asks her debtors to come across we must ask you to do the same.' Lloyd George's tongue must be making his cheek bulge when he talks this way. The cold truth is that, apart from Great Britain, there isn't a single European nation in any position to pay either what she owes America or what she owes Britain."

—Editor B.C. Forbes

"The Middle West and West are developing more rapidly than the East. Chicago is confident it will one day pass New York as America's largest city. The time will probably come, though not perhaps in your lifetime or mine, when the Pacific Coast will pass the Atlantic Seaboard in activity and commercial importance. It is deeply regrettable that the East knows so little of the West and its people; also that the West hasn't a fuller and more sympathetic understanding of the East and its people. One danger concerning this vast commonwealth is that sectionalism may develop to an embarrassing extent, leading to grave political and other quarrels and cross-purposes."

"The situation arising [in Italy] from the warfare between the Communists and the Fascisti or extreme nationalists is exceedingly grave. Martial law has been declared in the provinces of Genoa, Milan, Parma, Ancona and Leghorn. The military authorities have received complete control over these territories until order is restored. The fighting is particularly heavy in Genoa and Milan. . . ."

Fifty years ago

(August 15, 1932)

"Long awaited peace has come to the nation's capital only in comparative degree and only after patient anticipa-



Battle-ready troops disperse the "Bonus Expeditionary Force" in Washington in 1932

tion. If the now famous Bonus Expeditionary Force, otherwise termed the 'Bums' Expeditionary Force, had adjourned along with Congress, Washington would have missed not only some excitement but a little more actual concern. President Hoover can perhaps be credited at least indirectly for the decisive steps taken around the beginning of the month to rid Washington of the first major siege by a semiorganized army of demonstrators in nearly 100 years."

FORBES' view of the "Bonus Expeditionary Force" and the resulting "Battle of Anacostia Flats" proved woefully wrong. Some 15,000 jobless veterans had come from over the country to urge that their veterans bonus due in 1945 be paid at once. The House passed such a bill in mid-June; the Senate, at President Hoover's urging, defeated it as inflationary. Some of the marchers then departed, but other thousands stayed, partly in hope of reversing the Senate's action. When Washington police on July 28 sought to clear the men from condemned government buildings on Pennsylvania Ave. in which they were camping, a riot ensued in which two veterans were killed. A jittery President Hoover then ordered the Army to disperse the marchers; and General Douglas MacArthur, aided by Major Dwight D. Eisenhower, did so at bayonet point with tanks and tear gas, burning the shanty town the veterans had built on Anacostia Flats.

Hoover defended the action on the ground that many of the marchers were "Communists and persons with criminal records." The public judged the force excessive and the need for it questionable. It certainly undercut Hoover's reelection campaign that fall.

"German compromise is being carried to far limits in the highest places of government as a result of the recent national elections. As had been well anticipated in advance, the results were a further shift to the right, with greatest gains being made by the National Socialist party and the Nazi group. The latter party failed to secure a majority, however, and many authorities profess to see the passing of the crest in popularity for the Hitler outfit.

"Despite their lack of a majority the Hitler forces are still the unofficial winners in the recent German elections, and Von Papen, Von Schleicher and the Junkers government are doing all in their power to bring about some sort of a compromise with the Hitler forces to stave off the utter dislodgement of the Junkers cabinet."

"Launching of the Essex Terraplane was a real event in the automotive world. Pricing, which puts the car under the Chevrolet and midway between the Ford four and eight, introduced another and strong competitor in the lowest-priced field. . . ."

Twenty-five years ago

(August 15, 1957)

"Why are [stock market] averages not more average? From Walston & Co.'s able Eldon Grimm, a Wall Street analyst who likes a capital joke nearly as well as a capital gain, came this sly explanation last month: Blame the statisticians. Quipped Grimm: 'A statistician is an individual who has his head in the refrigerator, his feet in the oven and on the average feels comfortable.'"

A failure is a man who blundered, but is not able to cash in on the experience.
ELBERT HUBBARD

The talent of success is nothing more than doing what you can do well.
HENRY WADSWORTH LONGFELLOW

Do what you can, with what you have, where you are.
THEODORE ROOSEVELT

A man in earnest finds means, or if he cannot find, creates them.
WILLIAM ELLERY CHANNING

A man's life is interesting primarily when he has failed—I well know. For it's a sign that he tried to surpass himself.
GEORGES CLEMENCEAU

Our business in life is not to get ahead of other people, but ahead of ourselves.
MALTBIE D. BABCOCK

He that fails today may be up again tomorrow.
MIGUEL DE CERVANTES

Quality is never an accident; it is always the result of intelligent effort.
JOHN RUSKIN

Do not look back. It will neither give you back the past nor satisfy your daydreams. Your duty, your reward, your destiny are here and now.
DAG HAMMARSKJÖLD

Life is not a problem to be solved, but a reality to be experienced.
SÖREN KIERKEGAARD

Thoughts on the Business of Life

The person who advances is not the one who is afraid to do too much. It is the one whose conscience will not permit him to do too little, the one whose driving desire is to give the best that is in him, even though it may seem at times like casting bread upon unreturning waters
B.C. FORBES

Earnestness—that infallible sign of low metabolism!
FRIEDRICH NIETZSCHE

It is neither safe nor prudent to do aught against conscience.
MARTIN LUTHER

I know of no more encouraging fact than the unquestionable ability of man to elevate his life by a conscious endeavor.
HENRY DAVID THOREAU

Failure is only the opportunity to begin again, more intelligently.
HENRY FORD

To try and to fail is at least to learn; to fail to try is to suffer the inestimable loss of what might have been.
CHESTER BARNARD

More than 3,000 "Thoughts," indexed by author and subject, are available in a 574-page book at \$12.95. Send check and order to: Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Add appropriate sales tax on New York State orders.

An opportunity is a favorable occasion for grasping a disappointment.
AMBROSE BIERCE

Few things are impracticable in themselves, and it is for want of application rather than of means that men fail of success.
LA ROCHEFOUCAULD

Don't bother just to be better than your contemporaries or predecessors. Try to be better than yourself.
WILLIAM FAULKNER

Always take a job that is too big for you.
HARRY EMERSON FOSDICK

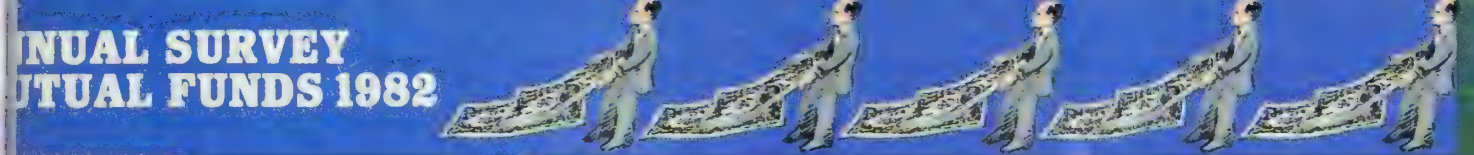
A Text . . .

Now I pray to God that ye do no evil; not that we should appear approved, but that ye should do that which is honest though we be as reprobates.
II CORINTHIANS 13:7

Sent in by Raymond W. Laycock, M.D., Pampana, Tex. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

In great attempts it is glorious even to fail.
LONGINUS

If your endeavors are beset by fearful odds, and you receive no present reward, go not back to error, nor become a sluggard in the race. When the smoke of battle clears away, you will discern the good you have done and receive according to your deserving.
MARY BAKER EDDY



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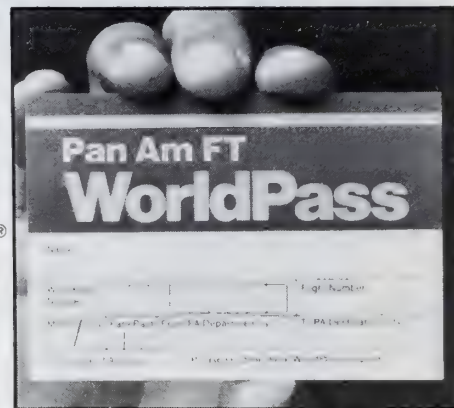
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Decline? Or rejuvenation?

"Are the good times really over?" Put to music by Merle Haggard, that question recently topped the country and western music charts, probably because it reflects what a lot of ordinary people suspect about our economy. But author Ronald Shelp sees the industrial decline of America in a rosier light. The service economy that is slowly replacing the industrial economy may be of a higher order. Some service workers, he agrees, work in McDonald's restaurants, but others become nuclear engineers and TV-game designers. Shelp is interviewed by James Cook, starting on page 62.

Bitter harvest

Senior Editor Stephen Kindel delivers a less cheerful message in this issue's cover story. He sees the plight of the American farmer in almost Kondratieffian terms (*FORBES*, Nov. 9, 1981) and concludes that the dream of feeding the world's hungry millions may turn into a bitter nightmare. "Please come back, W.J. Bryan" begins on page 108.



Reagan, down on the farm

Mutual fund ratings

For the 27th straight year *FORBES* surveys and rates the nation's mutual funds. We find the money market funds are doing just great; too well, think some lawyers who are going to court to bring the fees down. It was a poor year for the rest of the fund industry but still produced some praiseworthy performances, highlighted in The *FORBES* Honor Roll. The Survey starts on page 74, ratings on page 78.

Business news for adults

Does the treatment of business on TV network news set your teeth on edge? It does mine. Newscasters recite from the TelePrompTer numbers they don't understand, while struggling to keep knowing expressions on their faces. They cover the oil crisis from a neighborhood gasoline station. But there's life in the vast wasteland. The producers of NBC's *Early Today* show have made room for a short, five-times-a-week business commentary by Alan Abelson, the iconoclastic editor of *Barron's*. You won't agree with everything the sardonic Abelson says, but you will be buoyed by his sophistication and wit in a news medium where superficiality and witlessness often prevail. On NBC affiliates at 6:40 a.m.—and worth getting up early for.

The new diet doctor

The New Republic is a serious journal that knows how to be serious in a lively way. So it recently reviewed *Jane Fonda's Workout Book* and was amused to discover that the putative author blames big business for many of America's waistline problems. Greedy moguls keep urging consumers to eat, eat, eat their products while at the same time keeping their employees so nervous and insecure that they stuff themselves for solace. Good-bye, Dr. Tarnower. Hello, Dr. Marx.

James W. Michaels
Editor



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Stopping the clock

A Ford assembly plant in St. Louis has begun an experiment to test the need for that time-honored factory fixture, the time clock. Clocks and cards have long been standard to ensure that workers got credit for the hours and overtime they put in. Automakers, including Ford, have dropped the system in some small operations, but the six-month test in St. Louis marks the first time it has been done in an entire plant as big as this one, with 1,200 employees. Policing the experiment will be a mutual affair, since both Ford and the United Auto Workers have agreed to it. Assembly plants in Japan (where attendance is never a problem) do not have time clocks, but Ford says the St. Louis idea was strictly homegrown, originating with the employee participation groups at the plant.

Computers and the law

When the computer arrives, look for the lawsuits to begin, not so much over the machines themselves but about the software, the computer programs designed to perform specific tasks. Traditionally, manufacturers gave contracts on the actual machinery and took no responsibility for what happened in the system, writes Joseph Zammit, a computer attorney with New York's Reavis & McGrath, in the *American Bar Association Journal*. "A lot of times, contracts don't even cover software," he says. That's fine if the programming has only a few bugs. But if a system doesn't count the widgets it was supposed to track, there could be real trouble. Most plaintiffs are smaller businesses, partly because there is greater impact on them if their computer systems don't perform. The solution? "Contracts," says Zammit. "When individuals enter into contracts," he suggests, "they should define what is expected of the computer program and who will pay for the mistakes if it isn't right."

Prosit!

West Germany's beer is still as German as the Rhine, but the country's brewing industry is fast taking on an American look, with smaller breweries disappearing and the giants taking over. In 1956 Germany had 2,280 breweries; in 1968, 1,908; in 1980, 1,364, and this year, about 1,280. Just as in the U.S., smaller, family-owned

companies have given way to big, corporate-run plants. Big ones, turning out more than 11 million gallons annually, have more than tripled in number since 1962 and about 50 of them produce more than half of all German brew. Production has flowed at around 2 billion gallons annually for the past two years (vs. 5.5 billion for the U.S.). German drinkers still have the



The Oktoberfest in Munich

An American touch at the Bierstube.

edge, however. Per capita beer consumption in the U.S. is 24 gallons; West Germany's is 38 gallons.

... nor gloom of night

Postal workers have been cut to the quick by those Federal Express TV commercials belittling their service. The furor centered on one ad depicting two postal clerks deep in discussion about their pensions and stiff-arming a customer trying to send an express-mail letter. That prompted a protest from Moe Biller, president of the American Postal Workers Union, saying the ad "insults the integrity of some 670,000 postal employees, the overwhelming majority of whom are diligent, courteous and efficient." (The Postmaster General also joined in the condemnation.) Actually, two of the three TV networks had turned down the commercial and only NBC carried it. After Biller's action, it was dropped by NBC but ran its cycle on a string of independent stations. Succeeding blurbs in the Federal Express campaign, however, shouldn't make

Biller and his members any happier. One of the latest shows a businessman sealing a letter and going into a fit of trembling when a voice-over booms: "And you're going to hand it over to the Post Office!"

Laffer for the defense

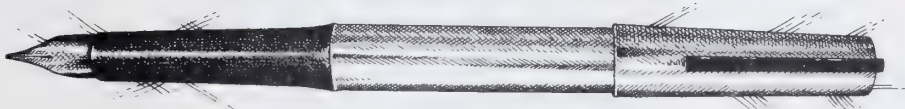
Ronald Reagan's favorite economist, Arthur Laffer, the man with the curve, backs the Japanese in their battle against the Administration's trade curbs. In a study for Toyota, Laffer's California consulting firm says Uncle Sam is shooting himself in the foot trying to fend off overseas steel, TV sets and autos. Tariffs and quotas, the report says, hurt both Japanese producers and American consumers and miss the real problem: inefficient U.S. production. Laffer spices the argument with oddball examples. U.S. TV makers, for instance, start sets here, ship them abroad half-built, then bring them back for finishing. Those sets, technically, are "made in the U.S.A.," though most of their innards are foreign. When the U.S. slapped quotas on foreign steel, Europe and Japan switched from run-of-the-mill exports to higher-grade metal, ending up with almost as much revenue. Washington's moves against Japanese automobiles have been just as futile. Tokyo agreed to limit car shipments, for example, then took a leaf from Alfred P. Sloan's book and began sending fancier, higher-priced models to the U.S. So dealers had fewer units but as much or more in sales dollars. Americans are obsessed with U.S. trade deficits, Laffer says.

The golden handshake

With some of the shine rubbed off their profits, the oil companies are following the lead of recession-rocked industries like automobiles and steel by trimming payrolls, particularly around headquarters. Shell, for example, has started two programs to nudge 1,500 staff employees toward "voluntary separation" or early retirement, offering two weeks' severance pay for every year of service. Exxon has taken a similar step, with specially tailored early-out plans for its staff. In one sense, this should not be surprising. "Early retirement plans appear during recessions like 17-year locusts," says Philip Alden, a vice president of Towers, Perrin, Forster & Crosby, a New York-based specialist in such matters. But why

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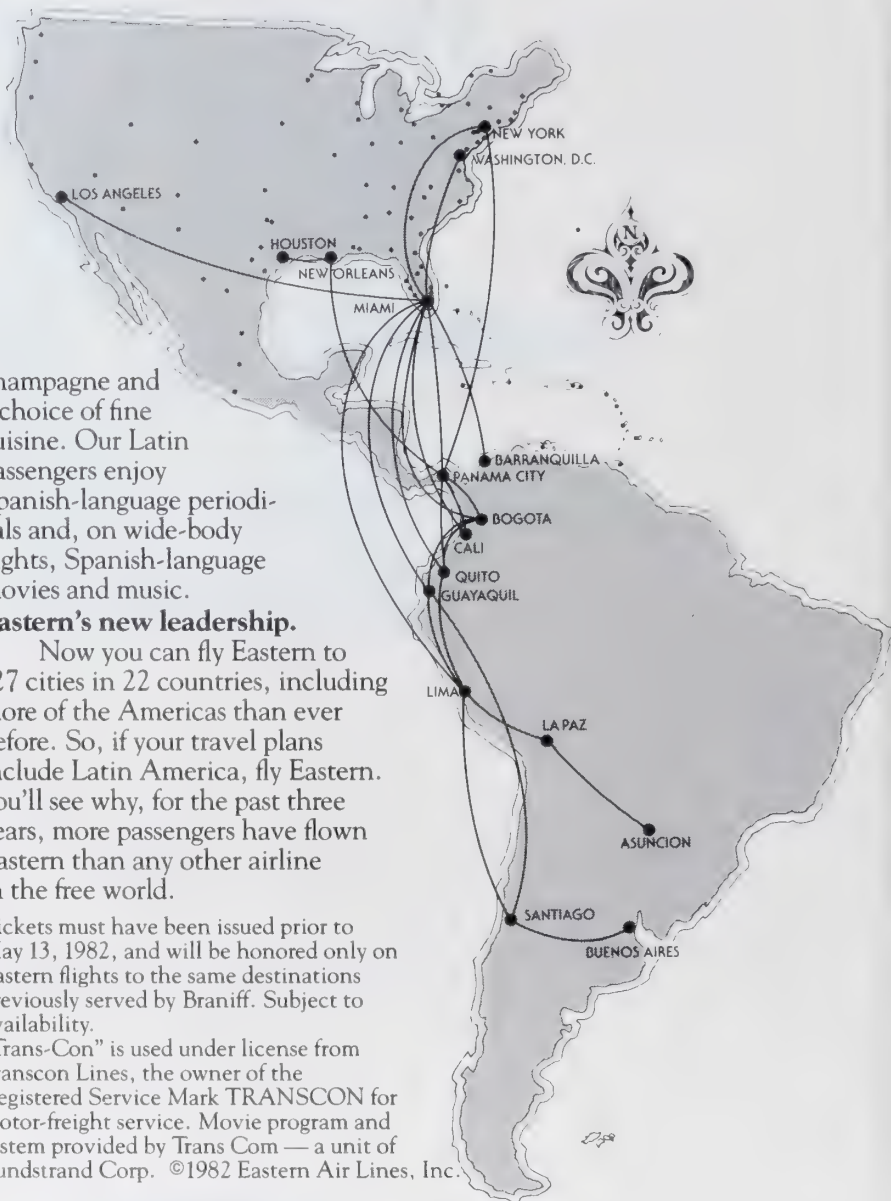
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Trends

should a company like Exxon be concerned about cutting, even if profits are running a third less than last year's, which produced a net of \$5.5 billion? "It's not a matter of survival," Alden says, but a golden opportunity to use the golden handshake to reduce overhead. "They've had the luxury of overstaffing," the Towers, Perrin executive says. "Now they're in a position where profits are off and they can use the chance to put their staffing into balance."

Slow board for Amtrak

Signals on the right-of-way for Amtrak, the government-run passenger rail service, are amber to red, at least on Capitol Hill. The Congressional Budget Office says that even if Amtrak's load factor goes up 15%, and if it can hike some fares, and if it can get its unions to cut costs 15%—all very large ifs—the system would still need a \$980 million subsidy in 1983. Without the changes, the budgeteers say, it will need \$1.13 billion. But what about all the gasoline Amtrak saves by cutting down on automobile traffic? Illusory, according to the budget office. "Amtrak appears to be and will continue to be an energy loser outside the Northeast corridor, while saving a limited amount of energy within the corridor," the report says. Even if the rosiest forecasts were fulfilled, the congressional group claims, those Northeast routes would save the equivalent of 1,773 barrels of petroleum a day—and it would cost the federal government hundreds of dollars a barrel to save it.

Clucks in the classroom

Gripes about deterioration of the quality of schoolteachers could get louder. Representative Paul Simon, an Illinois Democrat, says that college majors in education are now coming from the low rungs of the learning ladder. During the past ten years, he claims, the Scholastic Aptitude Test (SAT) scores of students choosing the education field have dropped an average of 80 points, putting them 17th in math scores and 14th in English. Simon is pushing a bill to have the states look into this and to encourage them to create commissions to improve the quality of teachers.

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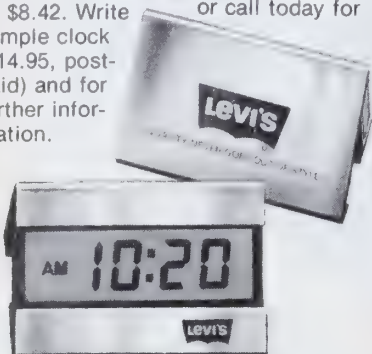
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Follow-Through

All the king's horses

The sport of kings was fast becoming the business of kings, FORBES concluded after studying the inner workings of Thoroughbred racing two years ago (*Mar. 30, 1980*). With horseflesh prices rising an average of 15% a year, yearlings and broodmares were commanding seven-figure tags at the auction block, stallions were becoming multimillion-dollar syndications, and some thought the Thoroughbred market would keep outracing inflation forever. But FORBES also found some muddy going on the track: Purses were rising far more slowly than the price of the horses vying for them; racetrack attendance was flat. Like diamonds, gold and collectibles, FORBES reasoned, horseflesh prices couldn't always go up.

No? At the Kentucky yearling sales in July, bidding left previous prices at the post. Britain's football pool king Robert Sangster beat out Mohammed bin Rashid al Maktoum, heir apparent to the throne of Dubai, by paying \$4.25 million at Keeneland for an unnamed colt sired by Nijinsky II. Three fillies each brought more than the previous \$1.4 million record. A colt by Alydar (whose get has never raced) brought in \$2.2 million.

What happened to the drop FORBES' handicappers had foreseen? Obviously, the top tier is solid. But the whole form chart tells another story. True, the average yearling price at Keeneland rose 32.5% over last year, to \$344,183. The big Keeneland prices, however, were whipped up by foreigners who kicked in 61% of the \$96 million gross and spent an average 12% more per animal than last year. Americans, the heavy year-round

buyers, spent an average of \$179,248 per sale, 12% less than last year. At Fasig-Tipton, after Keeneland the second-largest U.S. Thoroughbred auction house, prices have been climbing 24% to 50% annually for six years. In July the average yearling price hit \$78,432, up less than 12% from 1981.

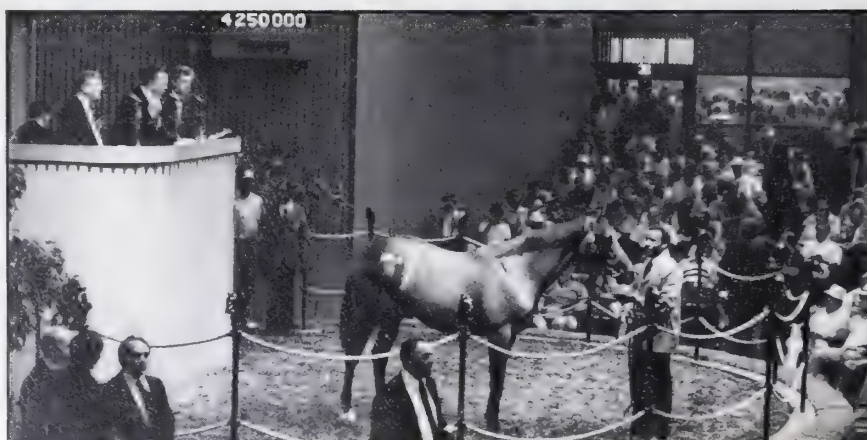
"The July market is only for world-class players," said Fasig-Tipton's President John Finney. "But there is no question that we will see a tougher market in the fall." Finney fears the market may be off by 10% for "average" yearlings and much more than that for less-than-average animals, which together make up over 90% of the 9,000-horse yearling market.

The fact is that the high-style top of the line is doing well, while the rest is not. "Calvin Kleins are selling beautifully. But jeans from S. Klein didn't," Finney says. Only those millionaires and sheikhs can afford to toss in fortunes for untested colts and fillies. "They won't know until the middle of the third year whether they have caught lightning in a barrel. There's just a lot more at risk," Finney says.

Don Quixote in the air

Like Don Quixote, the world's airlines have charged the windmills again. During the past year, FORBES zeroed in on two main problems that had put the international carriers in a permanent downdraft. One was the booming trade of Europe's "bucket shops," peddling tickets at prices a third of their face value, usually with full connivance of the airlines (*FORBES, Aug. 3, 1981*); the other was the price warfare waged by the carriers themselves.

This month, the International Air



The Keeneland auction clock proclaiming a new record
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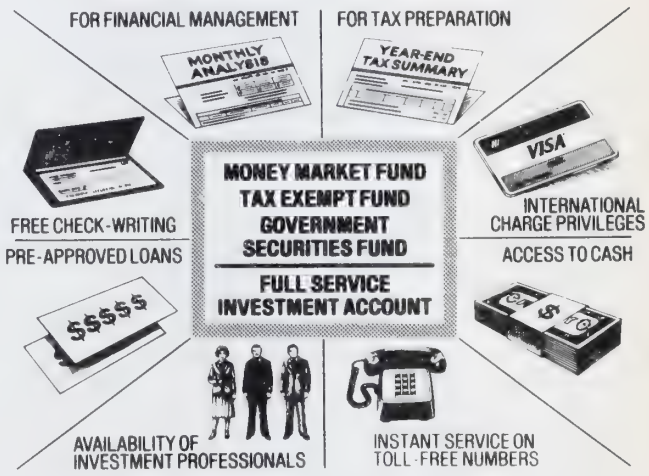
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| d | peoples |
| e | perplex |
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| g | powerless |

To correct spelling of word:

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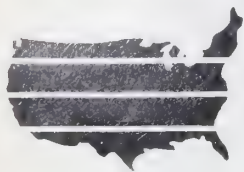
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Follow-Through

Transport Association (IATA) met to tilt at both problems. Sitting in Geneva, 53 airlines and seven government members of IATA voted solemnly to raise their fares and to eliminate the discounting. Both moves seemed little more than pious hopes.

The fare raises, an average of 2% to 7%, hardly look like the answer to the carriers' huge losses, which are projected at \$1 billion to \$2 billion a year through 1984. Last year the transatlantic lines lost more than \$650 million on that route alone. The raise proposed there is 7%, and IATA itself figures that would be only enough to bring the lines flying the Atlantic to the breakeven point. To meet even the minimum profit targets, the association calculates transatlantic tickets would have to be raised 11%. And with too many seats, too many routes and too few passengers, no one realistically expects price-cutting to slacken.

The high resolve to stamp out discounting will run into the same facts of life. IATA estimates that cut-rate tickets sold by the bucket shops cost its members \$1 billion in lost revenues last year, and IATA wants to cut that in half by 1983. To do so, it is launching a crusade headed by Ian Ritchie, the British Caledonian executive who heads the cartel's Fare Deal Monitoring Group. "My job," Ritchie says, "is to persuade all airlines—not just IATA members—to reduce discounting to the point of extinction." That will take some persuading. "It's going to take time, especially considering the cost and cash pressure on airlines," admits Raymond Cope, IATA's assistant director for traffic and industry finance.

Ritchie does have some allies. The governments of Brazil, Venezuela and Italy are trying to keep the clamps on discounting. Others, however, have grave doubts. Max Cole of Singapore Airlines, a non-IATA member, is blunt: "I believe IATA will not succeed for the reason that the level of dishonesty in international aviation is high. You can't trust an airline even if it says it will keep prices up."

Virendra Kapila, one of London's "consolidators" (the sales agents to whom airlines unload blocks of tickets they have no hope of selling), also anticipates no change. "The airlines have to discount in order to survive," he says. "If IATA is successful, then half the airlines will have to close."

The windmills would seem to have little to fear from Don Quixote.



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Readers Say

Dividends or jets?

SIR: Your "modest proposal" for converting dividends into capital gains (*Aug. 2*) is plausible. But it does assume, without saying so, that: 1) in regulated industries regulating authorities will not give back the savings to customers; 2) in strongly unionized industries dividends will not be used for wage increases; and finally 3) in the absence of 1) and 2), dividends do not find their way into unnecessary things like corporate jets. Many investors, who have not seen their investments grow much in recent years, probably believe a dividend in hand (tax or no tax) may be worth a lot of growth in the bush!

—Frederick K. Lister
Port Chester, N.Y.

SIR: Why should stockholders forego dividend income because of the failings of irresponsible nonowner management and labor union employees? Let businesses like Chrysler raise their capital from the government, if they can.

—Robert K. Matlack
Pittsburgh, Penna

SIR: The basic problem with the theory of total reinvestment is the lack of control which the shareholders, the owners of the business, have over their funds. They have only the stock market to determine the value of their assets, and we know what that can mean in terms of getting your investments out at a given time. Don't discourage dividends!

—Joseph O. Losos
St. Louis, Mo.

SIR: Wouldn't the majority of well-thinking, long-range investors rather sacrifice a dividend or so if it made such a difference in the long-range health of the company (and thus future dividends)? Wouldn't the government be better off in the long run if it did forego its double tax bite on dividends for a quarter or so if it kept the company in sounder shape to earn higher dividends in the future?

—John A. Curtis
Melrose, Mass

The tax mess

SIR: Your put-down of the Bradley "flat-tax" proposal (*Aug. 2*) was disturbingly superficial. It is precisely because the Bradley-Gephardt propos-

al retains some measure of progressiveness and preserves certain deductions that it is the most likely of any of the present proposals to move off the drawing board. Even if all Bradley-Gephardt does is what your writer suggests, *i.e.*, tidies up the present mess, what's wrong with that?

—Jerome B. Libin
Washington, D.C.

SIR: Just wait until the "necessary minor" increments occur in the future. People are going to move to Sweden by the boatload 'cause it would not be any worse.

—Lawrence F. Salsman
Gustine, Calif.

Which page do you read?

SIR: In the Aug. 2 issue on page 21, M.S. Forbes Jr. indicates the recession is not over. On page 25, Tom O'Donnell says it is over. Has Forbes met O'Donnell?

—Daniel J. O'Neill
Chicago, Ill

Sounds like the Administration, doesn't it? But seriously, both writers see a very sluggish, disappointing economy in the months ahead.—ED

Watch those prefixes

SIR: If Ford hadn't dumped Rocky, he might have been elected, but it would not be a reelection (*Fact and Comment, Aug. 2*). I will presume it was a typographical error rather than senility.

—Stephen J. Bean
Olympia, Wash.

Please! Neither, just a boo-boo.—MSF

SIR: You are right on. In one blunder Ford revealed an exaggerated respect for the right and a lack of confidence in his own judgment. All the more disappointing when one considers that his original choice of Rockefeller showed a certain admirable self-confidence in the man.

—Joseph E. Persico
author, *The Imperial Rockefeller*
Bethesda, Md

Moneymaker's rule

SIR: Thomas Murphy made a number of interesting observations on the characteristics of a typical entrepre-

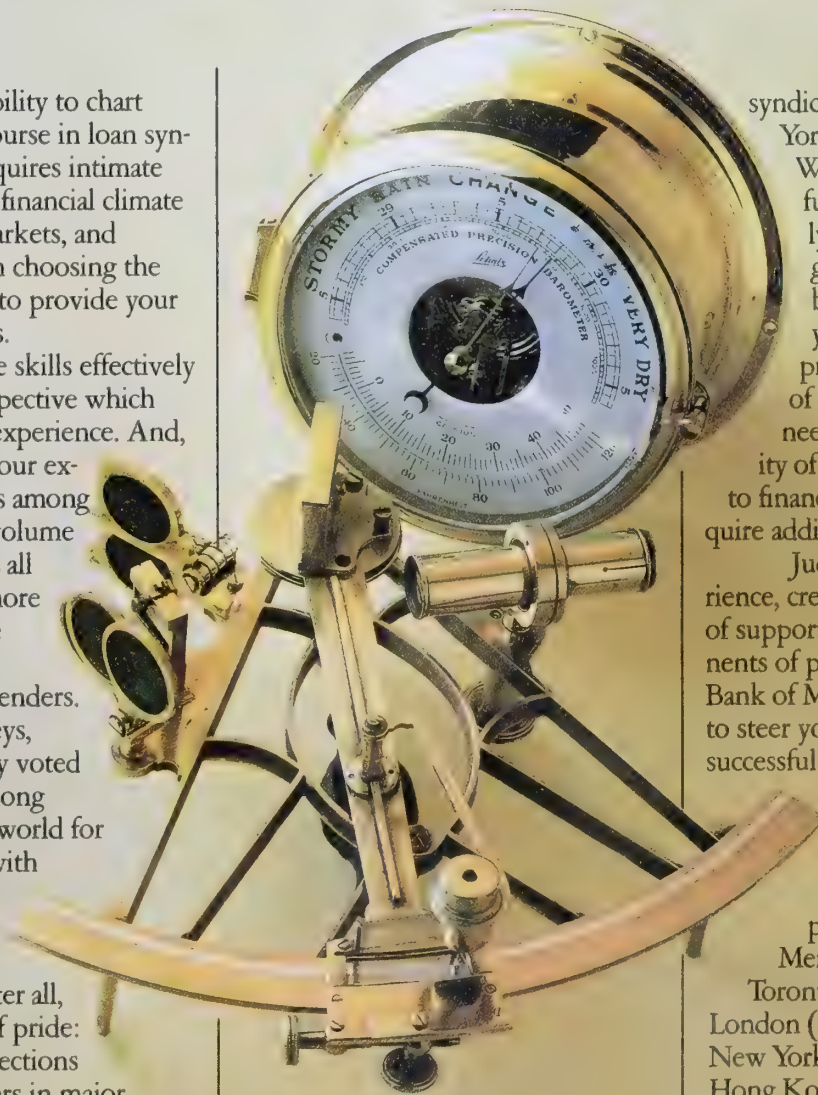
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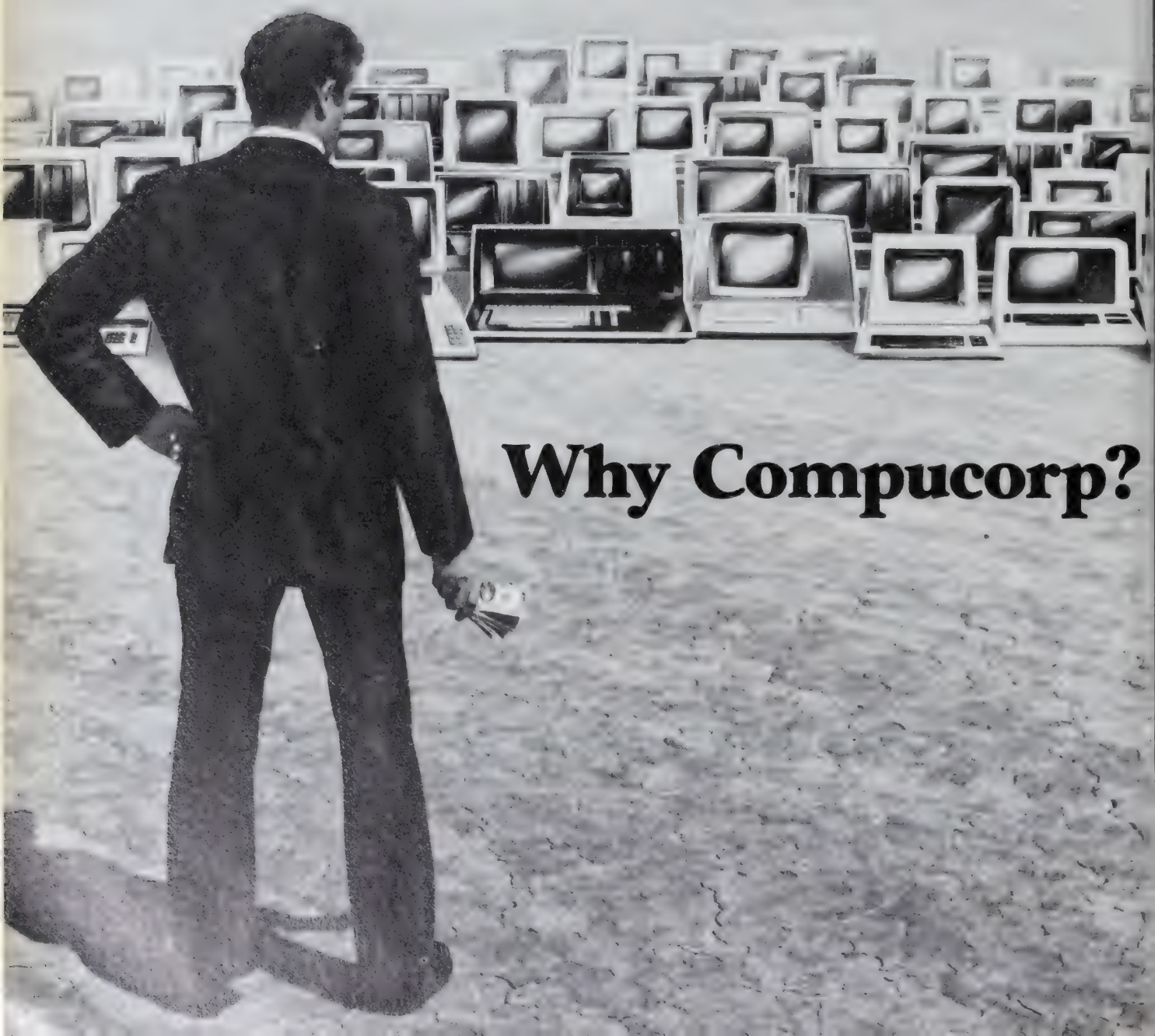
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Readers Say

neur in his July 19 article. Our research supports his statements and also shows that they tended to be early risers (40% by 6 a.m. and 85% by 7 a.m.) but did not necessarily retire early, giving credence to only the second half of Ben Franklin's dictum.

—Christopher M. Lehman

Executive Director,

Venture Founders Association, Inc.

New York, N.Y.

More fun to come

SIR: Few live to become 95-year-old subscribers to *FORBES* (*Fact and Comment*, July 5). Unlike the Scots octogenarian in the story, in 1981 at the age of 85 I extended my subscription for five years. What a pleasure it will be to extend it again when the time comes.

—N.I. Armistead

Tupelo, Miss.

For Braniff ticket holders

SIR: Though you correctly referred traumatized travelers who have purchased tickets for flights on Braniff commencing after its filing for bankruptcy to their Visa or MasterCard issuers for refunds (*July 5*), there is another route available (if you will excuse the pun). If the grounded passengers will file a proof of claim with the bankruptcy court where Braniff filed its petition, they may be entitled to a priority payment on the distribution of assets of the airline.

—J. Scott Boritz

Los Angeles, Calif

Capital deficiency

SIR: Your article "If We're Serious About the Budget" (*Fact and Comment*, June 21) points to a deficiency that I hope to correct by introducing capital budget legislation in Congress.

Because the congressional budget process makes no distinction between money appropriated for operating expenses and capital investments, federal spending priorities are biased toward immediate costs. As a result, our public infrastructure—highways, bridges, water and sewer systems—has deteriorated to the point that economic growth is threatened.

—William F. Clinger Jr. (R-Penna.)

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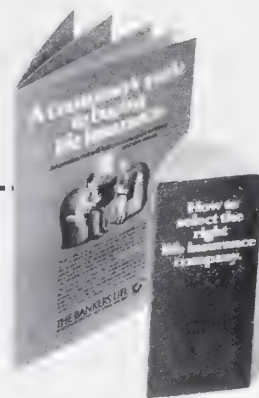
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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

RE THAT MYTHICAL THREE-MARTINI BUSINESS LUNCH

Who'd have thought that born-again Jimmy Carter would be born yet again—this time as a Kansas Republican Senator named Robert Dole?

"WHEN GEORGE SHULTZ HAS THEM, THE PRESIDENTIAL EARS

will be in good hands." That observation concluded an editorial that appeared here 12 years ago, when the present Secretary of State was named director of the Office of Management and the Budget (later Secretary of the Treasury) by President Nixon.

Fortunately, there's every indication that on all the broadest policy matters of foreign affairs—of which economics and trade are as important as military—Secretary Shultz will have not only the President's ears, but his unleavened confidence. That's something General Haig didn't have because of, among other things, his own unconcealed personal political ambitions.

Secretary Shultz is a principled pragmatist rather than a dogmatic ideologue. After his years of exposure on the front burners of political power, no one now mistakes his low-key approach and genial manner for lack of resolve and toughness. As I wrote here in 1970, "George had these qualities as a very young youngster. We grew up together in Englewood, N.J. I found then his tenacity at schoolwork a bit of a pain in the neck. Then—at eight and nine and ten

years old—as now, I didn't like working harder than necessary. George, by dint of digging until he had mastered the arithmetic lesson or the geography homework, kept making it necessary for all the rest of us to try harder if we were to get decent marks.

"On Friday evenings five of us, including George, would traipse a mile and a half to neighboring homes after our Boy Scout Troop meeting. Time and again he would dampen our enthusiasm for some un-Scoutlike mischief. When he couldn't talk us out of it, he would disassociate himself from the scene and stoically go his own way. At 12 and 13 and 14, that takes more determination than is perhaps now recollectible."

Thank goodness, too, that our new Secretary of State has a warm friendship and the highest possible regard for one of the most brilliant among his predecessors—Henry Kissinger. To Shultz, Henry K's counsel on the Middle East, the immense significance of cultivating our relationship with China and the whole gamut of State's vast responsibilities will be as available as they are invaluable.

ABOUT NUCLEAR WEAPONS,

everyone everywhere has the right to assume that security where they're stored is as total as the armed forces can make it.

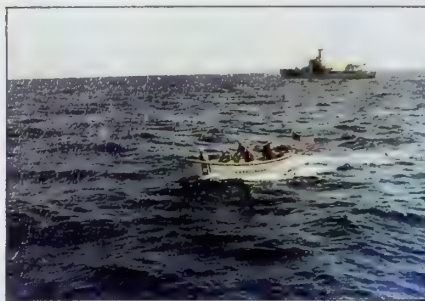
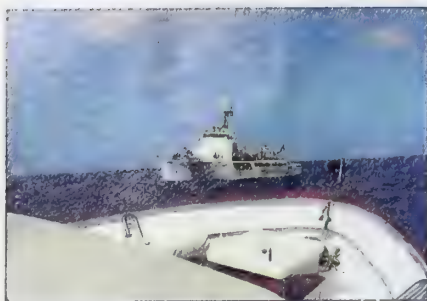
Wrong. Appallingly wrong.

During a Pentagon seminar last December it was reported that in the case of one NATO storage depot a handful of organized terrorists could reach the pile of nuclear weapons in two minutes. Imagine—inadequate night lighting, rusting and broken fencing, undependable alarms. Some nukes are stacked near public highways and could easily

be reached by portable rockets and missiles. According to Senator Patrick Leahy (D-Vt.), a member of the Armed Services Committee, security at many atomic weapons depots is "terrible."

Incredible.

Do you suppose Cap Weinberger, Secretary of War & Travel & Superspending, might give this some attention between trips—before some of the terrorists rampant around the globe snatch one or two nuclear warheads and thus get the world's total attention?



U.S. COAST GUARD—SAVING LIVES IN EVERY SENSE

Dope addiction is—sooner or later—murderous. The addict is his own victim, but his desperate craving accounts for countless other victims during that awful march to the morgue.

A ten-strike against our growing drug invasion is the presidential directive making the FBI responsible, along with the other agencies of government, for getting at the drug-smuggling assassins. Authorizing the use of Air Force and other defense installations to detect and track planes and ships illegally entering the country and our waters gives first-rate tools to those charged with stemming this unmitigated evil.

While U.S. Customs is our front line, we have some fine

outposts in terms of the U.S. Coast Guard. Not long ago, on *FORBES' Highlander*, we were returning to Ft. Lauderdale when we received radio instructions from a Coast Guard cutter to heave to and prepare for boarding. The scrutiny was intense as the cutter approached from some distance behind us over the seas we'd just passed—to be sure nothing had been heaved overboard. In quite choppy seas the armed party boarded. They were courteous but thorough as they examined papers, passports and vessel.

It is reassuring to know that, along with saving lives when ships are in distress, the Coast Guard is importantly helping to save lives ashore from being wrecked on perilous drug shoals.

RESTAURANTS—GO, ~~CONSIDER~~, STOP

● **Joyce's**—948 Second Ave. (Tel: PL 9-6780). Running a full-page ad in the *New York Times*, this steak and seafood restaurant seemed worth a try. It wasn't. Fish and meats harmonize with the plastic decor. Commented colleague Naomi Fein, "The New England clam chowder was so glutinous that if the cup had tipped over it wouldn't have slipped out."

● **The Assembly**—16 West 51st St. (Tel: 581-3580). Another full-page *Times* ad induced me to check this steak house out. Don't let it have that effect on you.

● **Altri Tempi**—237 East 58th St. (Tel: 752-2113). In an attractive, circa 1980s art deco setting, owner Dr. Franz Aliquo is serving up some deliciously different Italian dishes: French overtones in sauces on the one hand, nouvelle vegetables on the other. Veal rolled with mushrooms, ham and eggs in a white wine sauce does indeed look like what the menu describes as "a swallow's nest in a pan." If his staff can learn to prepare and serve in nearer one hour than two, there are more than two stars in Altri Tempi's horoscope.

● **Simons**—75 West 68th St. (Tel: 496-7477). When restaurant critic Jon Simon opened his own place near Lincoln Center, it was bound to attract—and did—the restaurant cognoscenti. Small (seating 36), with an intriguing combination of rough wood panels, beams and deco'd mirrors, it has a menu that is limited but uncommonly varied and often on a par with the ambience. Pasta, swordfish and salmon dishes are fine, while the thick veal chop

was more fat than meat, and the crème brûlée only so-so. Simons, though, has all the makings for Making It.

● **Vanessa**—289 Bleecker St. (Tel: 243-4225). At this former music-store site in Greenwich Village a previous restaurant—Claudio's—opened and was an instant smash hit. Within months it folded, undone by success. Its kitchen had turned to quantity, its staff to arrogance. Vanessa, too, is a success, but not of such proportions and publicity that it's likely to follow the same course. Nouvelle's the style of cooking. Lobster bisque, pastas and veal as well as scallops, bass and salmon are successful. If you're attending Off or Off-Off Broadway, or Soho-ing art galleries, this is a fine way station.

● **Richoux of London**—153 East 53rd St. (Tel: 753-7721). Compared to the flaming red light that two other well-known round-the-clock Big Apple restaurants deserve—the nearby *Brasserie* and the Hudson-Riverside-area *Empire Diner*—Richoux would get a bright green. Compared to what's available but not all night, it really merits amber. Occasionally good sandwiches, eggy things and ice cream stuff; pricey, but in the early a.m. who's to care? At the counter there's a vast array of Godiva chocolates—a fine peace offering for your late return home.

● **LeCygne**—53 East 54th St. (Tel: PL 9-5941). Absolutely stunning in its new two-story home adjacent to the old. The decor is now on a par with LeCygne's 4-star cuisine—though some of us miss a number of the old menu's offerings.

WORDS AND PICTURES



● **W. Eugene Smith – Master of the Photographic Essay**—(Aperture, \$39.50). Smith may be a “master,” as the subtitle claims, but you sure wouldn’t know it from this volume, which is everything a photography book shouldn’t be—18,000 minisized pictures

jammed captionlessly as many as nine or ten to a page.



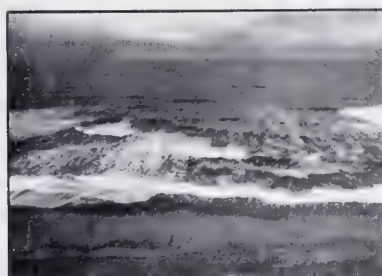
● **Pictures from the New World**—(Aperture, \$39.50). Danny Lyon pictures the outcasts and outlaws of our continent with more stark reality than any of his contemporaries. The Walt Whitman of this genre, Danny Lyon identifies with these castaways.



● **Beau Voyage – Life Aboard the Last Great Ships**—by John Malcolm Brinnin (Congdon & Lattès, \$60)—is a big book of 300 photographs depicting “Life Aboard the Last Great Ships.” I wouldn’t have believed such a wonderful subject could be handled with such deadly dullness.

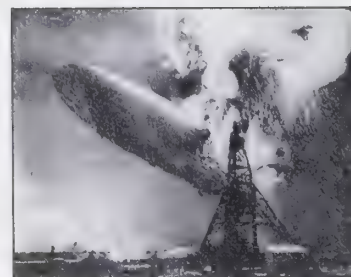
Use the \$60 this costs for the two or three infinitely better ones on the subject.

Excerpt: *The Queen Mary and the Normandie were often compared, item by item, in regard to their appointments, with preferences made largely in terms of taste. But according to a Danish observer, the difference between them could be simply stated. “The French built a beautiful hotel and put a ship around it,” he said. “The British built a beautiful ship and put a hotel inside her.”*



● **Water’s Edge**—by Harry Callahan (Viking Press, \$50). A gift from professional photographer son Robert, and you’ll agree with his judgment that we have likely never seen more contemplatively captured by anyone’s lens these beaches and shores, and people relating to them.

● **Airshipwreck** — by Len Deighton & Arnold Schwartzman (Holt, Rinehart & Winston, \$10.95). With rare, stunning pictures and incisive text, the authors, in 73 riveting pages, make it clear how and why “the rigid airship has gone forever.”



● **Quest for Adventure**—by Chris Bonington (Hodder & Stoughton, London, £14.95). The author is a foremost mountaineer, and harrowing climbing conquests dominate this big, handsomely illustrated volume. These and other extraordinary undertakings—including

six across oceans; two down the Blue Nile; one each across a desert, on the moon, beneath the earth, over the Atlantic by balloon; and three polar treks—will give armchair adventurers their fill.

Excerpt: *It has only been since the Second World War that the [adventure] field has been laid open to almost anyone in the developed world who craves such a release. This is the reason why people in the thousands tramp the hills, sail their boats, fly their gliders. The ordinary person has been given both the time and the money to do it. It is also why comparatively few people from the Third World play the adventure game—they have not yet reached this level of affluence or leisure.*

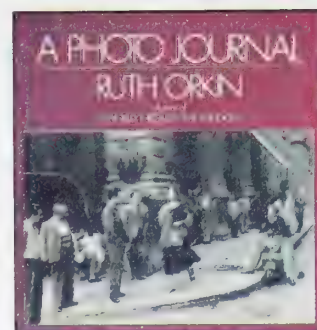


● **William Klein: Photographs**—(Aperture, \$50). Blur, distortion, graininess is the Klein style, and in this maestro’s hand, it often works on the streets of New York, Rome, Moscow, Tokyo and elsewhere.

● **A Photo Journal** — by Ruth Orkin (Viking Press, \$35). Ruth Orkin is one of the handful early hooked on photography who’s managed to make a living as well as a name at what has to be the most competitive game in town. Her candid

and her press shots are way ahead of her attempts at the arty stuff, which is as hackneyed as everybody else’s.

Excerpt: *My mother has said that when I was young I was constantly saying, “Look at this—look at that.” I think that taking pictures must be my way of asking people to “Look at this—look at that.”*





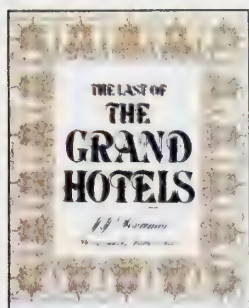
● **The Last Courts of Europe**—by Robert K. Massie, Jeffrey Finestone (The Vendome Press, \$30). Fortunately, photography was developed enough to record the final decades of royalty in full plumage before the plunge of most to oblivion by WWI's end.

Excerpt: In 1875 Alix [Princess of Wales] hoped to accompany her husband on his trip to India, but Bertie insisted on exclusively male company. Sartorial elegance was always important to the Prince of Wales, and, admitting that long swallowtail coats would seem odd in the bush, he designed a short dark jacket to be worn with dark trousers and a black bow tie—the birth of the dinner jacket.

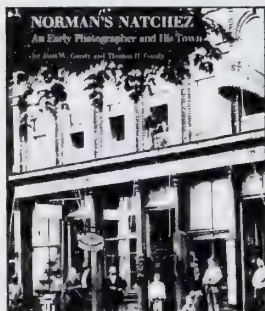
● **Objects** — by John Gruen (Alfred A. Knopf, \$75). Arty photographs as dull, literally and figuratively, as any in print. I don't know whose sensible judgment it was to limit this edition.



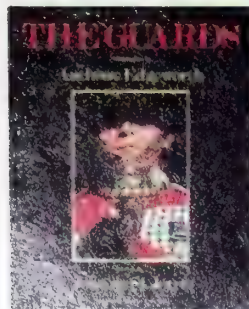
● **The Last of the Grand Hotels**—by J.J. Kramer, photographs by Matthew Barr (Van Nostrand Reinhold Co., \$24.95). The idea is great, but the execution, in word, picture and choice, does little justice to it.



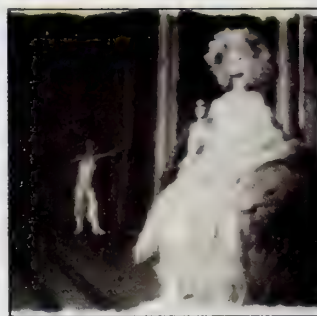
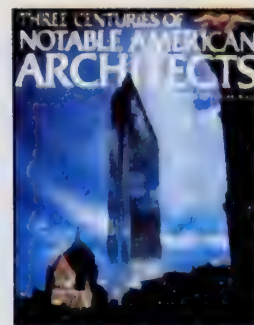
● **Norman's Natchez**—by Joan W. and Thomas H. Gandy (University Press of Mississippi, \$25). Unusual circumstances preserved 75,000 plates and films by a Mississippi photographer who documented his town and people from the Civil War through the turn of the century. Unfortunately, most of these have a static, Sunday-suit quality that is quaint but lifeless. Valuable archives, but dull viewing.



● **The Guards**—by John de St. Jorre, photographs by Anthony Edgeworth (Crown Publishers, \$25). The British Guards captured in photographs as colorful, sharp and glistening as the Guardsmen are when on show—and pictured with warm candor when they're relaxed or getting ready



● **Three Centuries of Notable American Architects**—edited by Joseph J. Thorndike Jr. (American Heritage, \$39.95). Herein 300 illustrations, many in color, of some notable (not necessarily to be confused with good or best) U.S. architects. The essayists' eulogizing is sometimes interesting. Those into architecture will probably find more to be annoyed about than pleased about, and those not, won't.



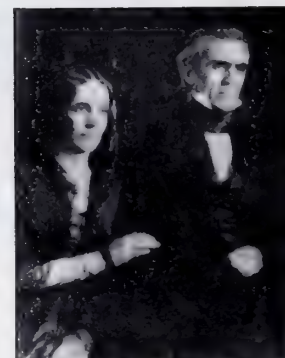
● **Unseen Versailles**—photographs by Deborah Turbeville, introduction by Louis Auchincloss (Doubleday & Co., \$40). This consists of absurdly clothed and posed models fuzzily photographed by Turbeville against the chateau's dancier nooks and crannies. This exercise is saved only by Auchincloss' superb introductory essay on the Louis who made Versailles, and on the royal line the Versailles lifestyle helped finish off.

Excerpt: Louis XIV had lost three heirs apparent in rapid succession. He was succeeded by the five-year-old Louis XV, sole legitimate [French] descendant of the king. When the dying monarch had his infant successor held up before him, as Nancy Mitford has put it: "The two men who between them reigned in France for a hundred and thirty-one years looked gravely at each other for the last time."

● **Flowers**—by Irving Penn (Harmony Books, \$35). Would you believe that one of our most brilliant photographers—unintentionally, I assume—could make the prettiest blooms look carnivorously ugly? This volume's enough to set horticulture back a decade.



● **First Photographs**—by Gail Buckland (Macmillan Publishing, \$29.95). Aside from someone with a consuming professional interest in the history of photography, I doubt this would interest many. It's hard to understand what motivated this labor to produce what so often have to be questionable 300 "first" pictures of everything from dinosaur eggs to views from Mount Everest.



Pres. & Mrs. James Polk

OCCASIONALLY WE USE STAG-HEAD CUPS AS WINE GLASSES

at luncheons here with corporate chieftains to whom we're feeding victuals in return for their feeding us information and viewpoints on their companies, industries and the economy in general. It seems appropriate because the stag's head is the centerpiece of the Scottish Forbes clan coat of arms. But a Princeton University historian sent us this extract, from a book on Victoria's Albert, which suggested

that our clan hadn't always sipped from such.

In *The Life of the Prince Consort*, published in 1877, Prince Albert comments: "Our people in the

Highlands are altogether primitive, true-hearted, and without guile. The day before yesterday was the Highland gathering of Braemar, to which many clansmen came.

"Yesterday the Forbeses of Strathdon passed through here. When they came to the Dee, our people (of Strath Dee) offered to carry them across the river, and did so, whereupon they drank to the health of Victoria and the inmates of Balmoral in whiskey, but as there was no cup to be had, their chief, Captain Forbes, pulled off his shoe, and he and his 50 men drank out of it."



MOVIES

• **E.T.**—Is on its way to being the biggest grossing movie ever. This enthusiasm is the happiest possible reflection of the good feelings and the pro-underdog attitude of Americans. Emotions engendered in this totally entrancing, superhappy-ending film run the gamut. E.T. himself now joins the world's mythology, and Elliot (Henry Thomas) should ready a shelf for his Oscar. • **Monty Python Live At The Hollywood**

Bowl—Would you believe more skits in this low-budget film (made from a "live show") miss than hit—including the pie bit? This group is so funny so often I guess it's only fair that occasionally even they make a movie that's only fair. • **Rocky III**—Just another chapter in this ongoing serial. If you're not overly ape about boxing brutality and the mumble school of acting, to see one *Rocky* was to see 'em all.

IT TAKES A DIM BULB

to shine when there's no one there to see the light.

IT'S MORE FUN TO KNOW

a little about a lot than a lot about little.

CHICKEN LITTLE'S LATEST: STRUCTURAL DEFICITS

By M.S. Forbes Jr.

Estimates of the budget deficit for next year and the hereafter have jumped sharply in recent weeks, and we're told that these shortfalls are "structural," perpetual unless drastic steps are taken on cutting spending and raising taxes.

Unless the deficit problem is put in perspective, we will get policies that will be more mischievous than helpful, and the economy and financial markets will suffer.

SPENDING. Spending did indeed get out of control in the 1970s, but this has changed hearteningly in the past 18 months. When Reagan took office, federal outlays were growing at an 18% annual pace. This year spending will rise 11%, and next year growth will be down to 4% to 6%.

Even when the full impact of the military buildup is felt in 1984-86, overall budget increases will be in the 6%-to-8% range.

The spending pace would be even slower today but for the severity of the recession, which forces up out-

lays for the safety-net programs.

INTEREST RATES. We're told that big deficits will keep interest rates at astronomical levels. The link between deficits and interest rates is tenuous, however.

A year ago, when the Administration was projecting a shortfall of \$40 billion for 1982 and a balanced budget for 1984, the prime rate was over 20% and Treasury bills yielded over 15%. Today, when the red ink for 1982 will exceed \$100 billion and forecasts for 1984 range to \$200 billion, the prime is 15% and T bills, 10%.

In 1969 we had a budget surplus, and interest rates jumped to their highest levels since the Civil War. In 1975 we had a shortfall that was proportionately worse than we have today, and interest rates were dropping dramatically.

Interest charges today are still far, far too high. But this is not a function of fiscal policy, it is one of monetary policy, a subject that the White House and Congress find both boring and intimidating.

DEFICIT PROJECTIONS FOR 1984

AND ONWARD. These boxcar numbers are merely computerized guesses. You can come up with almost any deficit you wish, depending on what assumptions you make about economic growth, unemployment, inflation, interest rates, etc. The basic assumptions being made today assume the worst of everything from the point of view of future deficits.

This obsession with deficits has led the Administration to back a harmful, ill-timed tax increase and a Prohibition-like Constitutional amendment. Instead, the White House should be doing something constructive about monetary policy; it should be challenging Defense Secretary Weinberger's "throw money everywhere" attitude about overcoming our military problems; it should be promoting some form of a genuine flat tax; and it should push more vigorously in curbing off-budget borrowing and lending.

Then "structural deficits" will go the way of "permanent natural resource shortages" and "perpetual double-digit inflation."

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

Unbelievable!

Bomb-grade plutonium totaling 55.6 pounds has turned up missing, along with 158.9 pounds of uranium, in an Energy Department study of nuclear weapons complexes around the nation. A spokesman, however, said no evidence was found that the material was stolen.

—Wall Street Journal

Mind-Gobbling Pay

Last year Mr. Steve Ross, who works for Warner Communications, was paid \$22.5 million primarily because of the success of Pac-Man. Consider a society that arranges to pay a man \$22 million for importing an electronic gobbling mouth.

—columnist Nicholas von Hoffman, Lancaster, Ohio's *Eagle-Gazette*

Elegance Pays Off

Madame de Pompadour spent money lavishly but not wastefully. The beautiful interiors that she created in the royal palaces, the tone and standard that she established in society, did much to enhance the general picture of refinement and elegance that we associate today with the term "French 18th century." Had the wreckers of the Terror conserved the items that she had ordered or inspired, they could have realized for them

sums far greater than any she had cost the national treasury. No one has ever had a more sublime faith in the value of appearances. She simply tried to leave the world a prettier place than she had found it.

—Louis Auchincloss, *Unseen Versailles*

Drilled Bank Nerve

The message of the Penn Square Bank episode may be that the much-ballyhooed oil and gas boom of the last few years is over, the victim of the same high prices that sparked it. More oil and gas is available as a result of the incentive of average prices ten times higher than a decade ago, and less is being used because of the higher cost.

Nonetheless, experienced oil and gas drillers insist the current downturn is temporary, amounting to a needed shakeout. Some 645 rigs, more than four times the number working in all of Canada, are still drilling in Oklahoma.

—Douglas Martin, *New York Times*

My Son the Bodybuilder

Our son is "lifting" [weights] and has taken to speaking an incomprehensible new language from a world that is totally foreign to me. At first I thought he was developing an interest in ancient civilizations like Picts and

Celts, a heartening and welcome intellectual development.

One morning he came downstairs wearing pajama bottoms and his newly built-up chest. "Guess what, Mom," he said. "I got delts."

"Delts! Omigod!" I said. "Are delts like warts?"

"Here," he said. "Feel my delts."

"Never!" I yelled, leaping about three feet. "What if I got them too? What will I tell your father?" When he explained that everybody has delts, more or less, and it's nothing to be ashamed of, I was greatly relieved. As parents we had to face the fact that our son not only has delts, but lats and pecs as well. Also things that sound like dinosaurs—triceps and quadriceps and brachioradialis. In fact, I've been looking at a diagram he showed me and his whole body sounds like one big monster movie.

—Marian Mundy, *The Bernardsville News*

No party can be called a success until everyone is talking and no one is listening.

—Quentin Crisp, *How to Have a Life-Style*

Peter's Great Dining Ways

There were never more than 16 places set at Russian Czar Peter the Great's table, which were filled at random by those who sat down first. Once he and Catherine had taken their chairs, he said, "Gentlemen, please take your places as far as the table will hold. The rest will go home and dine with their wives."

He hated long, ceremonial banquets; such occasions, he said, had been invented "to punish the great and rich for their sins." At official banquets he always gave the place of honor to someone else and seated himself near the end of the table in order to be able to escape.

—Peter the Great: *His Life and World*, by Robert Massie

Topmost Talk Talent

Virginia and Leonard Woolf traveled every spring, to Greece, France, Rome, Ireland and Germany. Ireland excited her. Never had she met a people with such a talent for talk—except, of course, when she was speaking to her mirror.

—Mary Cantwell, *International Herald Tribune*



"What's your dog's name?"

ANIMALS, ANIMALS, ANIMALS ©1979

KEEP UP WITH THE DOW-JONESES.

If you happen to know what the Dow-Jones average will be, 80 trading days from now, you could make quite an impression on your friends. Not to mention your banker.

Well, you *can* know.

All you need is a copy of *Barron's*, which just about everybody has.

And The Market Forecaster™ which just about everybody *should* have.

The Market Forecaster is a highly sophisticated computer program that, for years, has been predicting the Dow with uncanny accuracy. And now, for the first time, it's available in a module that plugs into a standard Hewlett-Packard HP-41 calculator.

With The Market Forecaster and the HP-41, you simply punch in some numbers from *Barron's*, have a cup of coffee, and—there it is. The Dow forecast, for 80 trading days from now, staring you in the face.

Think of what can happen, when you're armed with a forecast like that. You'll know when to buy stocks and when to sell them. When to invest in mutual funds or the money market. When to do just about anything except carry an umbrella to the office.

(The calculator actually sounds a "beep" when it's time to make a decision. A technological marvel. Your own, personal Early Warning System.)

And how accurate are the forecasts?

They're based on the same weighted factors that, over a 20-year period of refinement, have proven to be consistently reliable in The Finnegan Program. An investment advisory service that—for the many bank trust officers and investment

counselors who subscribe to it—is considered not only trustworthy, but essential.

You'll understand why, when you consider the evidence: In the past three years (from March 21, 1979 through March 21, 1982), the Dow-Jones Index declined 6.1%. In that same period, funds supervised by the Finnegan group (using long positions only) appreciated by 72.1%.

All the transaction records are available on request. And while the results may differ in the future, they can certainly tell you something about the past effectiveness of the Finnegan technique.

Next question: how much?

The answer: not much at all.

If you already own an HP-41, all you need is the Forecaster Module, Manual, and Keyboard Overlay. And all that costs is just \$250.

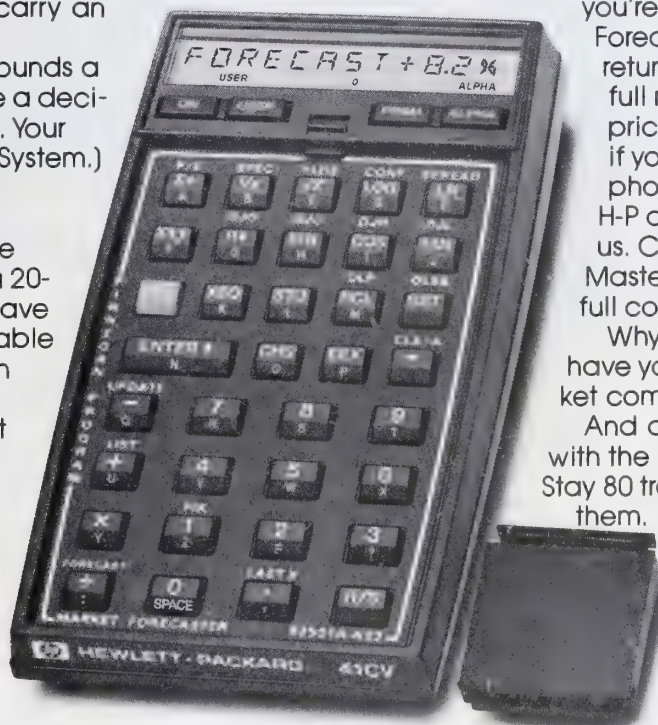
Or you can buy the most-powerful calculator that Hewlett-Packard has ever designed—the HP-41CV—complete with the Forecaster Module, Manual, and Overlay for \$490. Want the manual only, just to see how it's done? \$20.

All prices include a one-year limited warranty. If

you're not satisfied with the Forecaster module, you may return it within 30 days for a full refund. And, yes, our prices do include shipping if you order now. So order by phone or by mail, from any H-P dealer or directly from us. Charge it on your Visa or MasterCard if you like. The full cost is tax-deductible.

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And do more than keep up with the Dow-Joneses. Stay 80 trading days ahead of them.



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Quantity: _____ Description: _____ Price: _____

_____ HP-41CV, Forecaster Module, Manual and Overlay @ \$490 _____

_____ Forecaster Module, Manual and Overlay @ \$250 _____

_____ Forecaster Manual—free with above, \$20 if ordered separately _____

In Calif., add 6% sales tax: _____

Please allow 2-3 weeks for delivery. F-1 TOTAL: _____



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That's the saving from just one of the energy recovery products from C-E Air Preheater.

The Ljungstrom[®] heat exchanger helps a utility, refinery or process plant cut fuel consumption by up to 25%. Heat that would normally be lost through the smokestack is recovered and sent back to do more work. Fuel savings are about 1% for every 45-50°F increase in combustion air temperature.

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United States alone, there are more than 5,000 of these units.

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The Energy Systems Company

WILL THE TAX INCREASE HELP?

NOTE THIS: WHILE THE FEDERAL FUNDS RATE HAS DROPPED from about 14% to 11% in a few weeks, the prime rate, which usually follows it, is only down from 16.5% to 15%. The prime is acting sticky. Why? Because the banks, faced with frightening loan losses, are trying to recoup. And the Fed, worried about inadequate bank capital, is glad to see the banks strengthen their capital and reserves.

But the stickiness of interest rates, both the prime and long rates, is inhibiting business spending. What's good for bank profits isn't necessarily good for the level of business activity. It is now more profitable for businesses to buy short-term securities than to invest in plant and equipment.

Why the fall in interest rates is so excruciatingly slow

ORDERS FOR NONDEFENSE CAPITAL GOODS HAVE DROPPED 15% since April. A new Commerce Department survey shows that business this year plans to spend only 2% more than in 1981, instead of the 7.3% increase the March survey had predicted. No real surprise.

What about the consumer? According to the Conference Board, consumers turned more optimistic in July. Plans to buy major appliances, autos and houses before year-end rose by 12 points, or 16%, on the board's buying-plans index. There's a catch, though: Whether consumers follow through depends on rates. An 18% auto loan is forbidding. The big question, then, is: Whither interest rates?

Liquidity problems versus the fight against inflation

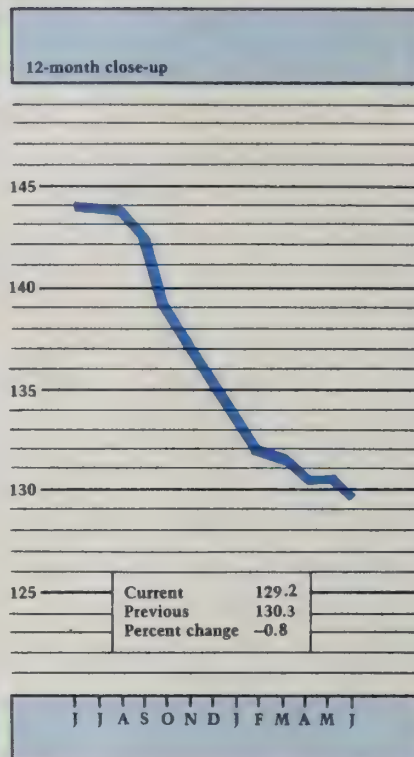
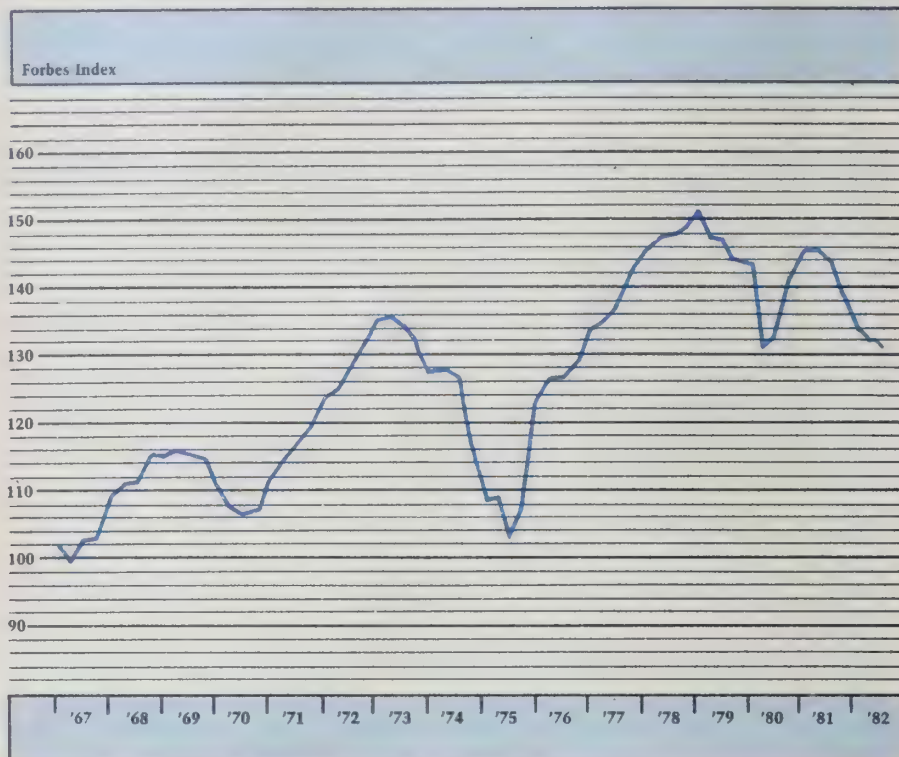
THE FED IS NO LONGER THE PROBLEM. IT IS PUMPING MONEY into the economy. Fed Chairman Volcker recently testified before Congress that the Fed could do so because inflationary pressures had subsided. That sounds good, but fears of a major financial crisis also play a part in the Fed's easing. With foreign loans and energy loans going bad at an alarming rate, and with real estate failures possibly looming, the Fed can't afford to be as tight as it would like to be. It must make sure the banks have enough money to forestall a major liquidity crisis.

It's the same old story. The Fed is asked to do too much: maintain financial liquidity, restrain inflation and avoid causing severe recessions. An impossible task, especially at a time when federal borrowing is at record levels. So, as the Fed continues its juggling act, rates will remain unhealthily high—down somewhat from current levels, but too high to permit a real recovery in housing and capital spending.

The federal government borrows less but taxes more

A STRONG RECOVERY? FORGET IT. Unable to persuade Congress to trim federal spending sufficiently, the Reagan Administration has reversed itself on taxes in order to prevent the federal deficit from getting completely out of hand. Short run, this makes the federal deficit less frightening. Long run, however, it marks abandonment of the supply-side philosophy that promised to get the U.S. economy back on the track of healthy growth. The real ogre, excessive federal spending, remains seemingly uncontrollable, since the political consensus to make sharp cuts is lacking. Reagan's reversal on taxes means only that the federal government will be borrowing less but taxing more. So, where's the *net* stimulus? All in all, not a pretty picture.

The Forbes Index



The thrill is gone. The Forbes Index is once again losing ground. The latest downtick has wiped out the budding optimism that the index generated only a few weeks ago. The recovery remains in the distance because consumers have simply refused to spend. In June they borrowed 1.8% more than they did in May, but this was more than offset by the fact that consumers repaid an even higher amount

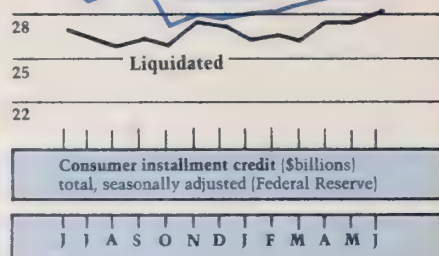
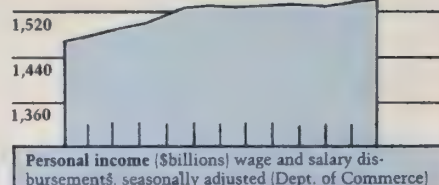
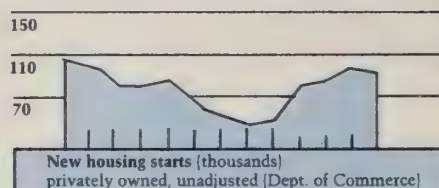
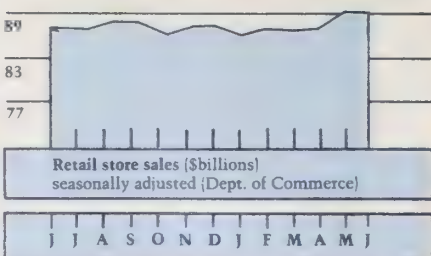
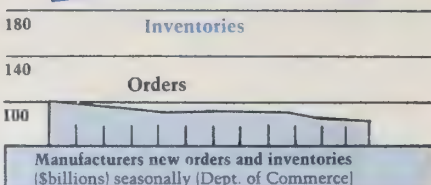
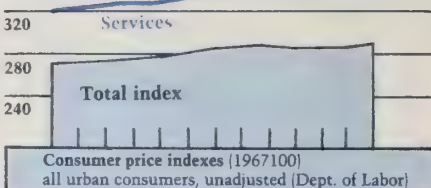
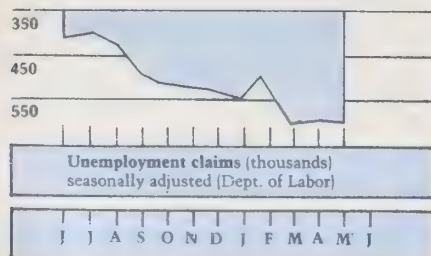
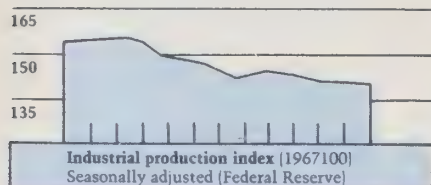
of their outstanding debts, some 2.1%.

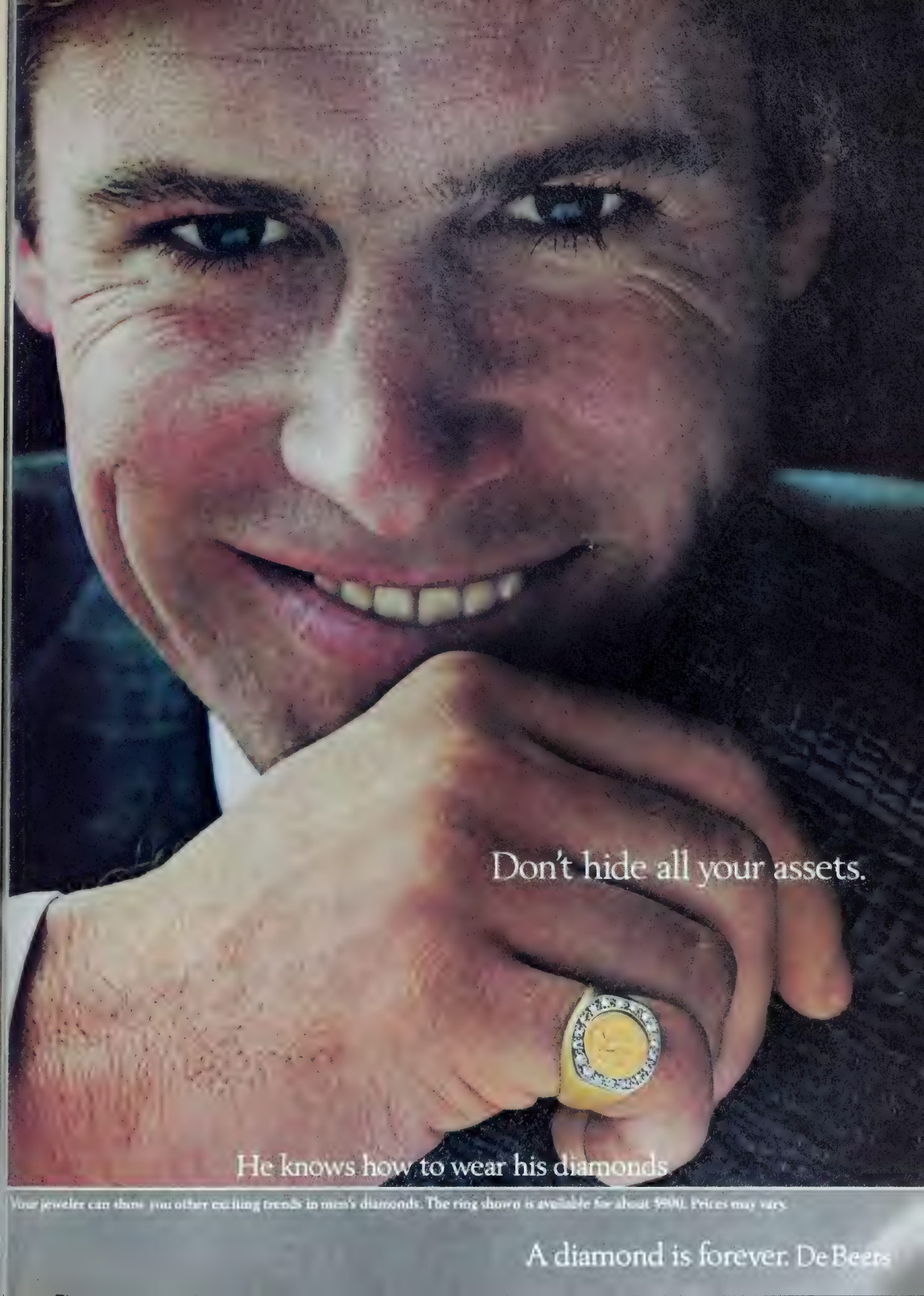
Adding to the gloom is the lack of business spending. Manufacturers' new orders fell 1.9% during the most recent reporting period. That's the lowest level in more than two years. Inventory liquidations, by contrast, are leveling off—a glimmer of good news as the economy continues to soften.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.





Don't hide all your assets.

He knows how to wear his diamonds.

Your jeweler can show you other exciting trends in men's diamonds. The ring shown is available for about \$5000. Prices may vary.

A diamond is forever. De Beers



We're Big

In 1981, for the seventeenth consecutive year, Ford and its affiliates sold more vehicles overseas than any U.S. based manufacturer.* And last year we outsold our nearest competitor by 33%, our biggest lead ever.

We're big over there. We sold more vehicles outside our home market than any other manufacturer sold outside its home market.

More than General Motors or Toyota or Nissan or Volkswagen or Honda or Mercedes-Benz or Peugeot or Renault or Porsche or Fiat or Volvo

Here's what being so big over there
means for you over here.

Being so big over there gives us a world full of resources. A solid example of our

*All sales estimates are based on production figures for 1981 calendar year.



Over There.

Worldwide expertise is the Ford Escort. It's the best selling car in the world, because some of the best minds in the world helped design, test and perfect it.

And those minds, here and abroad, so helped design and engineer Escort's CVH 4-cylinder engine

and its four wheel fully independent suspension system.

And they're working right now on the cars and trucks you'll be driving tomorrow.

That's why being so big over there helps us to make better cars and trucks over here.



There's A Ford In America's Future.

Bombay. Uniquely distilled. The extraordinarily dry and distinctive British gin. Join the club.

Play to win.



With even a modest pickup in air travel, UAL will become immensely profitable, but right now it's bleeding profusely.

Storms in those friendly skies

By Howard Banks

THE LAST PROFITABLE YEAR for United Airlines, the nation's largest trunk carrier, was 1978, when it made an operating profit of \$296 million. Since then its cumulative operating loss by June 30 this year has passed a half billion dollars. In the first half of this year alone, the UAL, Inc. group (the airline provides 90% of its \$5 billion revenues) saw its net loss stretch to \$134 million from \$30 million in the first half of 1981.

The persistent losses have taken their toll. At the end of profitable 1978, UAL had \$600 million in cash. At the end of 1981, the cash had dwindled to \$194 million and must have declined further since (the company will not say by how much). All this—and the terrible time the airline industry is having with sagging traffic—has called into question the airline's \$1.5 billion purchase of 39 of the new Boeing 767 airliners.

Richard Ferris, president and chief executive officer of UAL, Inc., and also chairman and CEO of United Airlines, has asked Boeing to delay the second batch of 20 of the 767s. And, depending on the revision of the safe-harbor legislation in Congress, United may try to cancel some. It is also negotiating with Boeing over part of the first batch. Boeing says it will delay deliveries of some, but will de-

mand penalties for any that are canceled. But don't be too quick to write off United. For all these problems and despite its dwindling cash, it is positioned to make a greater profit gain than other major trunks from any uptick in travel. Analyst Tony Low-Beer



Dick Ferris of UAL
"We soon learned. . . ."

of L.F. Rothschild, Unterberg, Towbin agrees. Citing the value of UAL's Westin Hotels, and sizable tax losses and unused investment tax credits, he recommends UAL's shares. In the second year of an upturn, he says, United could earn \$15 a share. Not bad for a stock selling well below 20.

Dick Ferris has been realigning the company to cut costs and to turn it into a marketing company, to a great-

er extent than at other airlines. In 1979 he joined the board of Procter & Gamble ("The best in consumer marketing," Ferris says) to learn how it should be done.

Overall costs, says Ferris, are 15% less now than they were in 1981. The payroll is down from 54,500 in 1979 to 42,500 this summer. Productivity per employee (in terms of revenue passenger miles) is up 22% over that of two years ago. And United's share of the U.S. travel market in the first half of this year was up by almost 1%, while the trunk airlines as a group lost a 3% share.

A major improvement has been the new contract for United's 4,500 pilots. In return for United's guaranteeing no layoffs, the pilots agreed to improve work rules (including two pilots where appropriate). On United's Boeing 737s these new rules cut the aircraft's operating cost from \$430 to \$270 an hour. This allowed high-cost, unionized United to create its one-class Friendship Express for shorter routes to compete with low-cost nonunionized upstarts like New York Air and People Express.

United was the first major airline to support deregulation. As soon as the law changed in 1978, it dumped around 120 shorter routes of 200 to 300 miles as being less profitable. Ferris flatly rejects the notion that a recent return to 8 or 10 of these routes indicates a major reversal of strategy. "Sure, there have been a few mistakes," he says. Like trying to make Kansas City a mini-hub aimed at avoiding overcrowded Chicago and trying the same trick at Memphis to avoid Atlanta. He can see only a few routes (like Cincinnati-Chicago) that might be added.

"If we did make a mistake," he replies, "it was in not recognizing four years ago the intensity of pricing competition that deregulation would bring, and getting structured to cope with it." It has taken time for management to adapt. "We soon learned that reservations flow off our books as soon as a competitor [however small] announces the date for a low-fare startup." United has now made an art form of instant response to any com-

petitive fare—before the new airline has started service.

To replace local traffic to feed its long-haul routes, lost when some short routes were abandoned, United has been doing deals with commuter airlines, deals intended to encourage them to push passengers United's way (for a price). And the airline is increasingly turning to the travel agents for the same purpose. It is now fashionable to talk of the agents as the distribution business ("They are our shelves," says Ferris). United's cost of doing business with them was up one-fifth in the second quarter of this year over the same period in 1981.

United is creating a special pool of agents selected from the 20,000 in the U.S. The chosen agents will get various "incentives" above the standard 10% commission rate. Not surprisingly, other airlines are suspicious. "The reason's simple," says United's marketing vice president, John Zeeman. "United's not in the old-fashioned club anymore."

Other airlines, especially competitive new ones, no longer get instant (and often free) listing on United's Apollo computer reservation system. "In the past," says Ferris, "this open-handed approach resulted in what amounted to a zero entry price for distribution in the airline business."

Yet the losses continue, partly because of three truly terrible bits of genuine bad luck. There was a long strike in 1979 by the IAM; after the airline agreed to two deals with the union, United's workers rejected both pacts. The strike over, United bought back its market share with half-fare coupons. That same year, 1979, all DC-10 aircraft were grounded after the crash of one flown by American Airlines. United, with 38 of them, was deprived of over one-third of its long-haul capacity. Last year the aftermath of the air traffic controllers' strike severely limited the airline's already tight capacity at Chicago (one-third of revenues flows through that airport). Chicago remains restricted even now.

There have been rumors (unfounded) that a deadline has been set for a financial improvement or his job will go. Ferris has heard them, too. But after a six-hour presentation at the end of July, he got the board's unanimous support. Board member William Jenkins, chairman of Seafirst and no stranger to horrid red figures, says sympathetically: "It's a bloodbath in the industry. I don't think anybody should be hung, drawn and quartered for poor figures right now."

Ferris has done most things right

to take advantage of deregulation. He even learned to fly jets in order to know what's going on. But what if traffic this winter is bad and there is a price war? Losses will mount further. And it remains to be seen whether those "incentives" to travel

agents and commuter airlines will prove to be cost-effective. United has to maintain its own costly reservation and sales operations. Should he have to reverse course later, expensively, Ferris—rightly or wrongly—will get the blame. ■

The FTC may have made mistakes, but does that mean professionals in business should be exempt from the laws?

Poor prescription

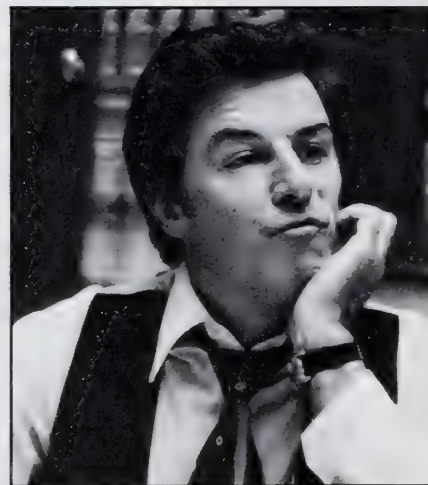
By Allan Dodds Frank

THE FEDERAL TRADE Commission hardly rates as anyone's favorite agency. Even a Democratic Congress, tiring of FTC adventuring against business, curbed its power in 1980. To bring the commission further to heel, President Reagan appointed James Miller III, a regulatory reform expert and former FTC critic, as chairman.

But now special interest groups representing doctors, dentists, veterinarians and ophthalmologists—the so-called professionals—are taking advantage of support for deregulation to try to exempt their business practices completely from FTC scrutiny. They have succeeded in attaching an exemption to the FTC's fiscal 1983 budget authorization. But it has aroused opposition even from Miller, who says: "I see no basis or principle upon which one or another industry can argue that its anticompetitive, unfair or deceptive conduct is entitled to a special exemption from the law."

What kind of anticompetitive conduct is Miller referring to? The proposals Miller opposes would prevent the FTC from investigating fee fixing, boycotts, kickbacks and other deceptive practices by professionals that state and local agencies frequently seem unable to control.

The FTC, which has been examining professional conduct since 1975, in fiscal 1982 spent 10% of its \$68 million budget to attack such prac-



Representative James Florio
Blocking the doctors' way.

tices. The FTC stopped physicians from prohibiting release of information about their hospital and health maintenance organization pricing practices and clamped down on dentists who were boycotting group health plans by withholding X rays. In perhaps its biggest case, the FTC decreed in 1978 that eyeglasses could be advertised, a ruling that some optical groups claim resulted in an average saving of \$20 per pair of eyeglasses.

But when the agency's excesses in going after business opened it to criticism, the professionals went in for the kill. Aided by political action committees with more than \$2.8 million of campaign money to distribute, the professional associations have pushed

exemption from FTC jurisdiction through the Senate Commerce Committee. The Senate amendment leaves regulation of doctors, dentists and others mostly to the states. But the AMA is circulating a statute through state legislatures to remove doctors from many local regulations as well. Basically, the AMA's position is that all physicians' activities—from abdominal surgery to billing and personal incorporation—are covered by the Hippocratic oath and are beyond the public's ability to judge, unless an individual wants to sue.

But Representative James Florio (D-N.J.) sees a lot of what physicians do as a business. As chairman of the House Commerce, Transportation and Tourism subcommittee, he has blocked House action on the proposed exemption thus far. Florio has support from a coalition of associations representing nurses, dental hygienists, medical technicians, midwives, chain drugstores, other retailers, labor unions and some optometrists.

These groups see a lot of what their more academically credentialed brethren do as directly anticompetitive. For example, the coalition notes that doctors in Florida were prohibited by a county association from advertising their proficiency in Spanish, that physician assistants and nurse practitioners in Alabama are prohibited from performing many outpatient services in rural clinics. And the FTC ended, in 1978, the once common practice by ophthalmologists and optometrists of refusing to give copies of prescriptions to patients looking for cheaper eyeglasses.

Ironically, Senate Majority Whip Ted Stevens (R-Alaska) cites those "absurd practices" as reasons for supporting his amendment to exempt state-regulated professionals from FTC jurisdiction. Stevens argues that abuses occur because FTC preemption has made state agencies lackadaisical. "The states have said, 'Well, hell, if they [FTC] are going to take on the business of regulating our doctors and lawyers, why should we go against these very strong elements of our community? Let the Feds do it,'" says Stevens. "The public interest is better protected by 50 strong state entities than it is by one FTC trying to involve itself."

The issue is an important one: how best to keep open competition in our complex society without the suffocation of bureaucracy. The exemption is unlikely to get through Congress this year, but the professionals' special pleading will undoubtedly take up the time of future Congresses. ■

Is the Reagan Administration picking on Japan? Or is it using tough Japanese tactics against the Japanese?

Turnabout

By Jerry Flint

THE REAGAN ADMINISTRATION has decided to get very Japanese in combating the trade offensive from Japan. Without a lot of philosophical attitudinizing or invoking of old trade laws that U.S. companies have dismissed as "burial insurance," the Administration is turning to whatever works to end the Japanese practice of targeting industries and flooding U.S. markets.

This means using the FBI, the anti-trust laws and the courts in a manner similar to the way the Japanese for decades have used vague "specifications" and "national customs"—rather than formal legislation or international agreements—to restrict their home market.

The Administration's moves thus far have been neither subtle nor secret. Mitsui was charged with cheating on statements to U.S. customers about steel shipments. It pleaded guilty and was fined \$11 million. Hitachi and Mitsubishi were charged with attempting to steal computer secrets and those two premier Japanese firms, along with Nippon Electric, Toshiba and Fujitsu, are being investigated for price-fixing by the Justice Department.

Japan has been found dumping products as varied as electric motors, steel wire and rope, bicycle speedometers, tempered sheet glass, swimming pools, acrylic sheet and spun yarn, tapered roller bearings, cadmium, TV sets, roller chain, portable electric typewriters, carbon steel plate, fishnetting, large power transformers. Of 82 antidumping duty orders and findings in effect, 25 involve Japanese products. That's a big number; among other nations we trade

with, Canada, the U.S.' number one trading partner, was penalized for nine such transgressions, France for eight, Italy, seven.

Says Lionel Olmer, the Commerce Department's undersecretary for international trade: "We are going to continue to press them [the Japanese] very hard." Olmer is blunt. The U.S., he says, is determined to prevent the Japanese "from having free and open access to industries in the U.S. that they happen to target for success on the basis of their own industrial policy, which is arrived at through government and industry planning."

The mood on Capitol Hill is with the Administration. Senator Ted Stevens, Alaska Republican and majority whip, recalls the constant haggling with the Japanese over fishing off Alaska. Boat seizures and fines didn't work. Finally, a fishing permit law was established. Now, says Stevens, "We say, 'Gentlemen, if you don't live up to these laws, you're not going to get a permit.'"

President Reagan, in a speech to farmers earlier this month, described a "united front" of the Departments of State, Agriculture, Treasury, Commerce and the U.S. Trade Representative working together to eliminate practices that put a crimp in U.S. farm sales around the world.

Is this xenophobia? From Tokyo comes word that the Japanese feel picked on for their success. But in this they are not being entirely candid. In the Reagan Administration the Japanese are up against businessmen like Olmer, himself once an industrial trade executive with Motorola, who have firsthand knowledge of their trading practices. They will not be put off by tired homilies on hard work and free trade. ■

They're saying takeover mania is over as a result of Gulf Oil's breakup with Cities Service. We beg to differ.

Can you squeeze Conoco out of Du Pont?

By Priscilla S. Meyer

IS THE TAKEOVER boom really ended with Gulf's abrupt backing out on the Cities Service acquisition? Who's kidding whom? As long as Wall Street sees fat advisory fees and juicy arbitrage profits, you can bet the busy dealmakers will continue whispering temptation into the ears of the corporate mighty.

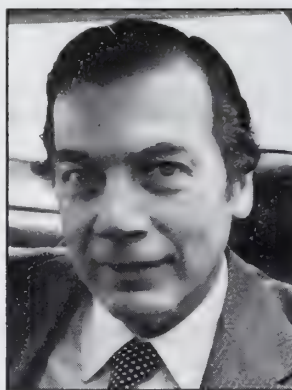
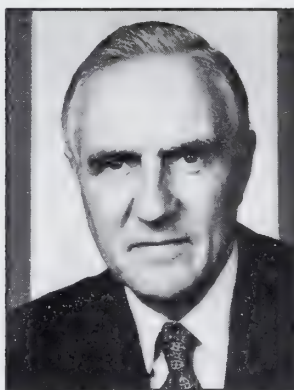
Let's fantasize for a moment: Du Pont's stock price is hovering near \$30—lower than anytime since 1975. In fact, the chemical giant's market value is just \$7 billion. That's about \$800 million less than Du Pont paid in the fall of 1981 to buy Conoco.

Don't blame the recession. Sure, Du Pont's profits are down marginally, but the company should still earn close to \$5.50 per share for the year, more than 3 times its depressed 1975 profits. What's more, a few months ago Du Pont's share price was sliding at a time when stock in Celanese and Monsanto were edging up, even as they were reporting down earnings.

Why? "It's the oil," says Richard Derbes, chemical analyst for Oppenheimer & Co. Because of Du Pont's Conoco acquisition Oppenheimer took Du Pont off its recommended list June 1. At about the same time, other Wall Street firms took similar action. "We had liked Du Pont because it was cheap in relation to its assets and because we felt conventional wisdom had become too negative," explains Derbes. "But continued high capital spending in the face

of an inability to sell significant assets has been disappointing."

Indeed, Du Pont has been hit by the corporate equivalent of the triple whammy. During a period of sky-high interest rates, it borrowed heavily to buy into a capital-intensive industry. Result: Interest costs have soared by 400%, while proposed capital spending is up by 50%. And the company's



Mobil's Warner and Seagram's Bronfman
What are you doing for lunch?

traditional businesses are being clobbered by the recession. Add that investors today are shunning oil stocks and you have lots of reasons for Wall Street's disenchantment.

One man's disenchantment, however, is another's opportunity. Just ask the folks at Lazard Freres or First Boston, the advisers who earned a seven-digit fee representing Conoco in the 1981 takeover battle. Such dealmakers think like this: Just last August, Mobil offered \$120 per share to buy Conoco. Presumably the oil giant still wants additional reserves, and its executives are far less fickle than Wall Street about real values.

Enter Edgar Bronfman, chairman of

Montreal-based Seagram Co. He now holds over 21% of Du Pont stock, a legacy of Bronfman's abortive attempt to acquire Conoco last year. As part of a standstill agreement, he has promised not to expand his holdings beyond 25%. That protects Du Pont against a Seagram takeover. But it may actually make the corporation more vulnerable to an outside raider—if Bronfman goes along.

How could an enterprising dealmaker encourage that? Try arranging a well-catered luncheon. Invite Bronfman and Mobil Chairman Rawleigh Warner and lead the conversation along these lines.

Over the first course, discuss Mobil's interest in buying oil in the ground and point out how sharply prices have fallen during the past several months. Then move on to the potential for a big oil company like Mobil to buy 30% of Du Pont today for the relatively modest price of \$2.8 billion—tendering for stock at \$10 above current share prices.

Next explain what could happen if Bronfman decides to vote his shares with this new investor: Since the two now control Du Pont, the buyer swaps

Du Pont shares for Conoco, throwing in an appropriate amount of additional cash. This leaves Bronfman holding perhaps 30% of a downsized Du Pont, with a cleaned-up balance sheet and existing operations that would probably earn \$8 per share this year. Rid of its oil and some of its debt, Du Pont would probably command a better price.

While they are serving dessert, point out that both parties may actually come out winners in this transaction. An oil company ac-

quirer could effectively buy Conoco without a costly, contested takeover battle and for far less money than it sold for last year. Bronfman, meanwhile, could emerge clearly in command of one of America's proudest companies with excellent basic business prospects and the potential for stock market gains through strategic spinoffs.

None of the conversations actually took place, and, so far as we know, no such specific deals were ever discussed. Nor is such a deal likely. What's the point, then? Simply this: Unless you can think in these terms you will never earn a seven-figure income as a Wall Street dealmaker. ■

There are lots of legal ways to make earnings look better than they really are. The FASB has stopped the latest gimmick.

Games companies play

By Richard Greene

JUST A FEW WEEKS AGO EXXON picked up some \$130 million in second-quarter earnings without selling a single gallon of gasoline. There's a fancy name for what the oil company did—"defeasance"—and it's wholly legal. But it can also be a way to persuade your shareholders that things are better for the company than they really are.

A couple of major companies "defeased" recently. Among them was the Kellogg Co. of breakfast food fame. In Exxon's case, doing so enabled it to claim some \$200 million in pretax profit simply by shuffling pieces of paper in a kind of arbitrage between current high interest rates and older, lower rates. What Exxon did was this: 1) bought \$312 million in Treasury securities; 2) used these Treasury bonds to offset \$515 million of its own debt. How? That's where the arbitrage comes in. The coupon rate on the new Treasury bonds was so much higher than the rate on the old Exxon bonds that the \$312 million worth of the former would cover both interest and principal at maturity on \$515 million of the latter. Exxon booked the difference between the two sums as profit. After paying expenses related to the deal and reserving for taxes (another paper transaction), Exxon brought \$130 million to the bottom line—about 15 cents a common share. That was enough of an earnings boost to hold its reported drop in earnings to about 51%, rather than 59% in 1982's sec-

ond quarter. The treasurer's office certainly earned its keep that day.

In a move that astonished accountants familiar with the situation, the Financial Accounting Standards Board moved quickly to nip this trend in the bud. Dozens of firms were reportedly gearing up to try the same trick. But the FASB, in a formal meeting, voted 5-to-2 to prohibit companies from showing earnings on a debt "retirement" when they haven't really paid off the debt.

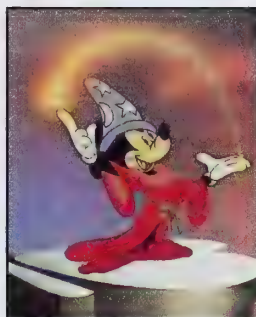
It will be months before any kind of final rul-

ing comes from the FASB. If the board decides against Exxon's method of accounting, the giant oil firm may eventually restate. Exxon declined to speculate at all about the outcome of the FASB decision. "We feel the action we took was in accord with generally accepted accounting principles as they now stand," a spokesman said.

With defeasance in limbo, companies still want to do something to help earnings, so swaps of equity for debt are going strong. In this case a company actually trades common stock for old bonds. Since these old bonds sell at a discount from the value, there is a profit involved (*see table*).

While the FASB doesn't seem particularly concerned about such deals, the fact remains that these earnings are just as much funny money as defeasance. The swaps do improve the balance sheet, but are scarcely anything you should call *earnings*. Says Dennis Beresford, head of accounting practices for Ernst & Whinney, "Instead of picking it up in the income statement, you should credit it to capital."

Do you suppose that when long-term interest rates finally come down again, many of these same companies will use defeasance and stock-bond swaps to *reduce* reported earnings? Who's kidding whom? ■



Instant "profits"

Through a stock-bond swap, U.S. Steel turned a second-quarter loss of \$83 million into a \$4 million profit. Here are 14 other firms that have recently hyped their earnings with these deals.

Company	Added earnings as result of swap (millions)	—2nd Quarter—	
		Earnings	Swap as % of earnings
US Steel	\$87.0	\$ 4.3	2,023.0%
Pfizer Inc	5.0	80.6	6.2
Ohio Edison Co	20.0	54.0	37.0
Armstrong World Industries	2.1	9.6	21.8
US Home Corp	2.0	4.1	48.7
California First Bank	6.8	4.3	158.1
Florida Coast Banks	1.3	2.4	54.1
Textron	6.0	24.7	24.2
City Investing	9.9	35.0	28.2
Kroger Co	1.1	35.8	3.0
Phillips Petroleum Co	15.0	140.0	10.7
Sherwin-Williams Co	5.1	18.0	28.2
CPC International	6.0	57.0	10.5
Revlon Inc	6.6	39.7	16.6
Houston Natural Gas Corp	13.9	59.0	23.5

The legendary Calouste Gulbenkian built a world-class fortune from oil royalties in the Middle East. Don Simmons is doing the same thing in Africa.

Mr. Two Percent

By Jonathan Greenberg

THE YEAR WAS 1963, and it was Jake Simmons Jr.'s first trip to Nigeria. The American ambassador told Simmons his business venture was hopeless: The major oil companies were so deeply entrenched that new concessions were unthinkable. Undeterred, Simmons visited the Nigerian oil minister, who had never seen a black American oilman. "All concessions are taken," the minister said, perhaps with a smile. "But new ones are coming up soon."

Jake Simmons negotiated his first successful foreign contract a few months later. It was the start of an international relationship that now ranks Simmons as perhaps the leading independent American oil trader in West Africa. Although his income never approached that of the legendary "Mr. Five Percent," Calouste Gulbenkian, who tied up acreage throughout the Middle East in the Twenties, Simmons operated in a similar manner. In return for an override rumored to be about 2%, he negotiated leases in large tracts of unexplored, oil-rich foreign territories. And, as with Gulbenkian, it may be some time before the true value of Simmons' holdings becomes clear.

Jake Simmons Jr., wildcatter, lease broker, oil trader and outspoken black businessman, died last March at the age of 80 in his hometown of Muskogee, Okla. His thriving oil operations, however, continue. For the past 12 years Simmons' youngest son, Donald, now 47, has spent most of his time in Nigeria, Ghana,

Kenya and the Ivory Coast, both managing and expanding the family's oil interests.

Tall and robust, Don Simmons is largely a one-man operation. After all, it's difficult to do business in a part of the world where bribery, payoffs and tribal customs prevail. The 20 years of contacts he and his father have nurtured allow him to negotiate amiably where the Seven Sisters fear to tread.



Oil trader Don Simmons

"I'm going to Africa to make money."

In return for their override percentages, the Simmonses have won concessions on over 7 million acres for the likes of Occidental, Phillips, Signal Cos. and Standard Oil of Indiana.

Just how much of West Africa's production is a result of Simmons-negotiated contracts is a tightly guarded secret. Until now the family has never talked publicly about business activities, but the Simmonses are clearly among the nation's most successful entrepreneurs. Their Gili-Gili concession negotiated for Phillips Petroleum, for example, has produced some 5,000 barrels daily in Nigeria since 1980. And Don Simmons indicates that Gili-Gili is not his largest concession. There are probably many more such wells across West Africa.

These days, Don Simmons may be of the right race in the right place at the right time, but blind chance didn't put him there. Paraphrasing Booker T. Washington, Simmons notes, "You have to judge a person's success not necessarily by where he is, but where he came from."

Don Simmons' father, Jake Jr., was part Creek Indian and was raised on the family's 840-acre ranch. He went to college at Alabama's Tuskegee Institute, graduated in 1919 and became an oil lease broker. At a time when contracts were less significant than a man's word, he earned a reputation as honest and trustworthy. He also won respect in his industry—at that time among the most conservative in the South. "How in hell can a black man stay in bed in the morning when white men rule the world?" Simmons would ask his sons.

During the Depression he left Oklahoma to do business in the rough-and-tumble region of east Texas. Blacks owned land there, but few had the connections to produce oil. Jake found a white lawyer willing to defend their interests and a wealthy oilman willing to buy their leases. He peddled black oil leases around the territory and received percentages and commissions. Simmons used the money from lease trading to drill for oil around Muskogee. After numerous dry holes, he struck oil in 1949 and made his first million. "He was probably one of the most outstanding people in Oklahoma," recalls Edwin Van den Bark, senior vice president of Phillips Petroleum. "He was able to do business in the white man's field be-

fore the civil rights movement."

While he was succeeding in business, however, Simmons wasn't oblivious to discrimination. In the 1930s he took one of the earliest equal education cases to the Supreme Court. By the early 1950s, he was head of the Oklahoma NAACP—an organization that then received about as much sympathy from many Americans as the Communist Party. There were the usual threats of violence, and today Don Simmons says he remembers seeing a pistol close at hand whenever his father was at home.

Eventually Simmons became an important power in Oklahoma. Democratic politicians wooed him; some even tried to buy his influence. He was said to be able to sway the votes of 10,000 blacks. At his funeral, packed with local officials, Governor George Nigh eulogized him.

Despite his accomplishments, Jake was never able to win a seat on the Muskogee city council or on the board of any of the town's banks.

These days Don Simmons faces the burden common to the sons of successful men—with an ironic twist. Being black was a handicap to his father, but it is an asset to him. "The obstacles Dad faced don't exist for me," he explains. "There are lots of Americans in the oil business in Africa, but none of my race. I'm in a unique position because of the color of my skin."

After his father's death Don returned from Ghana to Muskogee. He lives in a large but not lavish home with his wife and three daughters. He drives a Mercedes 380 or an AMC Jeep and pumps his own gas at self-service stations. Simmons has a thorough knowledge of local geology, so he has been drilling on the family ranch. He struck oil or gas on all three of his first wells, and domestic production should yield his family over \$1 million annually within the year.

Don owns Simmons Royalty Co. with his mother, sister and two elder brothers—successful in other fields. Jake Simmons III, 57, was a vice president at Amerada Hess until President Reagan appointed him Interstate Commerce Commissioner a few months ago. Kenneth, 49, is a prominent city planner and associate professor of architecture at the University of California at Berkeley. "My father used to say he wasn't raising bootblacks, he was raising presidents," says Simmons, who himself holds a degree from Oklahoma State University.

Simmons' African experience, of course, is a priceless asset, and he

weighs his words carefully when discussing it. During a Nigerian coup in the Sixties, for example, a soldier put a rifle to his head and pulled him out of his car. A local friend who was a passenger told him to get back in or he would be shot. He did, and the soldier moved on. Simmons' alleged offense: blowing his horn near the governor's mansion. "All that goes with the territory," he shrugs. "If people ask me how things are over there, I'd just say, 'Not as bad as Northern Ireland.'"

The Simmons family's African activities have won the respect of many government officials. "I was impressed that an American black was in the oil industry," says Yusuff Maitama-Sule, the Nigerian ambassador to the U.N. who was minister of lands and mines when Jake Simmons got his first concession. "He was an honest businessman determined to do an honest job and get an honest profit."

Simmons believes that offshore West Africa will eventually yield as much oil as the North Sea and that someday West Africa can fill much of

America's oil import needs. "Nigeria is our real friend in the world—they're the only country that didn't cut us off in the '73 embargo," he explains. He also feels that if the U.S. wants to remain on good terms with black African nations it must oppose apartheid more vigorously. "We've got to bring about a change before it gets pushed with a gun down the throat of the Western world," he warns.

Simmons' views on domestic affairs are more conservative. Though a Democrat, he scorns eastern "liberals" and their programs. Simmons favors tax-free enterprise zones for ghetto areas and an emphasis on spreading the capitalist ethic among blacks.

However, he is far more businessman than social reformer. Simmons may form a public offering in the future. "I have the basis for building a very large, visible oil company," he says. "I remember back in 1973 when a woman interviewed me for Voice of America. I said, 'I'm going to Africa for one reason: to make money.' She was shocked out of her pants." ■

Harold Geneen's strategy, so apt for the Sixties, appears to be the wrong strategy for the Eighties. Can Rand Araskog devise a new one? And in time?

What might have been

By Jean A. Briggs

THE SCENE: the Park Avenue headquarters of International Telephone & Telegraph in Manhattan. One cold day last March, the 54 members of the planning and marketing staff of ITT's telecommunications division were summoned to a meeting. "Some of you have done an extraordinary job. Most of you have done all right," said Frederick W. Gibbs, ITT's 50-year-old executive vice president of telecommunications. "But I'm disbanding the department. I'll leave you in the hands of personnel." Gibbs turned and left the room.

Such scenes have been common-

place recently, but this one had special poignancy. This particular department thought itself the vanguard of ITT's new vigor in its oldest but neglected business, telecommunications. The blow was unexpected.

Telecommunications was the company's only business when Harold Geneen took it over in 1959. Last year, after hundreds of acquisitions and dozens of divestitures, telecommunications still accounted for 25% of sales and 23% of earnings. But the profitability of the business has been declining for the past ten years, and return on sales has dropped from nearly 7% in 1972 to just over 3% last year.

Clearly, telecommunications was taking a backseat to conglomeration. Now, ITT is pouring money into telecommunications. According to Steward Flaschen, the company's technical director, its total R&D expenditures, including money provided through customer contracts, equal 12% of sales, or about \$1.3 billion.

Can this heavy R&D spending reverse the slide? Perhaps, but the slide has lasted a long time. The story began 23 years ago. When the now-retired Harold Geneen took over in 1959 the company was what its name said, an international telephone and telegraph business. It operated phone companies around the world, manufactured and sold telephone equipment and operated an international

to the fact that the telecommunications picture was getting clearer and brighter. The U.S. telephone market, long virtually owned by AT&T, was opening up to independents, including ITT. Like a general who refuses to change a considered strategy in the face of inconvenient new information, Geneen kept channeling his telecommunications profits into such things as hotels, paper and pulp, baking and insurance. It was a good strategy, wasn't it?—look at the results. During Geneen's two decades at the helm, revenues went from under \$1 billion to \$17 billion and profits from \$29 million to \$301 million, although return on equity was stagnant.

In any event, conditions changed and so must strategies. Many of Ge-

system has yet to catch on in the marketplace.

Santa Clara-based Rolm, once basically a supplier of military equipment, has grabbed a 12% share of the PBX market. Mitel, a Canadian company, has a 17% share of that market and it recently announced an agreement in principle with IBM to develop and sell more technologically advanced gear.

The interconnect market is not the only one ITT missed. There was the private long-distance voice market cracked open by MCI. "We didn't anticipate the Execunet decision," Gibbs says, referring to a 1976 case. "We thought what MCI was doing was illegal and would be declared so." When the courts ruled for MCI, ITT finally reacted. It formed a subsidiary called United States Transmission Service (USTS) with a microwave system extending from New York to Dallas and began offering a service named City Call. But ITT's Chairman and CEO Rand Araskog concedes the company has had problems with collections. "We didn't select our customers properly," he says. "An elementary mistake—but I think we've corrected it now."

More important than either of these two lost opportunities, however, was ITT's failure to develop digital switches. Digital switches, which make use of integrated circuit technologies, can handle both voice and data communications with greater efficiency than analog switches. According to one former executive, "ITT could be the last telephone equipment manufacturer in the world to have one."

It was not technology that held ITT back but lack of management commitment. According to technical director Flaschen, an ITT scientist made the basic discovery called pulse code modulation (PCM), which makes digital switching possible. But the company didn't pursue it in any significant way—though in the early Seventies it did help the French government build a prototype switch.

Meanwhile, other companies, notably Sweden's L.M. Ericsson and Canada's Northern Telecom, began offering digital switches and winning contracts. Ericsson won a \$2.2 billion Saudi Arabian contract in 1978, an event that caused a considerable political storm (*FORBES*, Feb. 20, 1978 and Apr. 17, 1978).

Earlier, Canada's Northern Telecom, 45% owned by the public and 55% owned by Bell Canada, planned to enter the U.S. market with a digital switch. It recruited John Lobb, a for-



Rand Araskog flanked by his predecessors Harold Geneen and Sosthenes Behn
"ITT is not for the faint of heart."

telegraph and telex business. It had revenues of \$765 million and profits of about \$29 million: an overseas AT&T. Geneen was convinced the telephone and telegraph business overseas was doomed by nationalism and socialism. The governments of the countries where ITT operated would eventually take over the company's operations.

It is easy to criticize with the advantages of hindsight. At the time they were taken, Geneen's decisions were sound. Nationalism was rampant, as was socialism, and several of ITT's Latin American subsidiaries were taken over with only minimal compensation, thus vindicating Geneen's judgment.

But while he was busy conglomerating, Geneen paid scant attention

neen's proudest acquisitions began to run into trouble while telecommunications was becoming a business to get into, not out of. In 1968 in the U.S. market, for example, the long simmering issue known as interconnect—whether one could or could not attach non-Bell equipment to the telephone lines—was settled. The verdict in the Carterfone case favored competition, and the market opened up. ITT responded sluggishly. It had bought a small maker of intercoms called Terryphone. "The plan," according to Gibbs, "was to broaden the product line and eventually produce switching equipment for customer premises usually called PBXs or PABXs. But that never really worked out." Now, much later, ITT has its advanced System 3100, introduced last year. The

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mer ITT executive, to be chief executive officer. In May 1976 Northern held an extravaganza at Disney World in Florida to introduce its switches. Nine months later ITT held a conference in New Orleans with the theme: Buy analog gear; digital switches are still in fantasy land.

Interestingly, John Lobb had earlier offered to license Northern Telecom's system to ITT to sell, not in North America, but in its traditional international markets. No sale.

Less than a year later, however, ITT finally went digital. It bought North Electric, a telephone equipment maker, from United Telecom for an estimated \$100 million. The purchase gave the company a manufacturing base, some customers to service and a digital switch for the U.S. market. ITT has been trying to upgrade that switch for the U.S. market ever since—at the cost of huge losses, reportedly \$20 million to \$30 million per year. Meanwhile in Europe, work on digital systems was speeded up at company laboratories in Belgium, France, West Germany, Spain, Italy and Britain. The company had finally got the message.

Lyman Hamilton, who was ITT's chief executive briefly between Geenen and Araskog, seems to have understood how far behind ITT was—

and how dangerous the lag was. He moved quickly to consolidate the company's research and marketing efforts. ITT engineers in Connecticut had come up with an elegant new concept: a digital switch with distributed control rather than central control. It had startling implications. Instead of having a telephone system with, say, 10,000 lines controlled by a

The interconnect market is not the only one ITT missed. There was the private long-distance voice market opened by MCI. "We didn't anticipate the Executive decision," Gibbs says. "We thought what MCI was doing was illegal." The courts ruled otherwise.

computer in a central office, there would be 10,000 microprocessors, one on each line, or more realistically, 5,000 or 2,000 microprocessors, one on every two or five lines. No central computer to fail and shut the entire system down. The system would never go out, and capacity could be added easily and cheaply.

No one knew if this idea could be made to work or how much it would

cost. To help push it, Hamilton established the recently fired planning and marketing staff in New York. Araskog approved of the objectives but not the approach, so he wiped out the New York operation.

As engineers struggled with it, marketing people produced beautiful booklets, slides and films proclaiming the advantages of distributed control. They managed to generate orders for 1.7 million lines of the yet unbuilt and unproven equipment. They named it System 1240.

When Rand Araskog replaced Lyman Hamilton as chief executive in 1979, he continued Hamilton's prodigital policy. Northern Business Information, a consulting firm, estimates that ITT has so far poured \$700 million into the new system. Araskog and Gibbs put the figure at \$300 million, but admit that it could cost well over \$1 billion before it is completed. By contrast, Northern Telecom's system cost \$250 million to develop, and may prove cheaper to operate. Time is money, big money, in such things, and ITT is running late on delivery.

It would be foolish to write ITT off in telecommunications. ITT has traditionally been allocated 24% to 35% of the German market and 80% of the Belgian market. The telephone administrations in such countries are

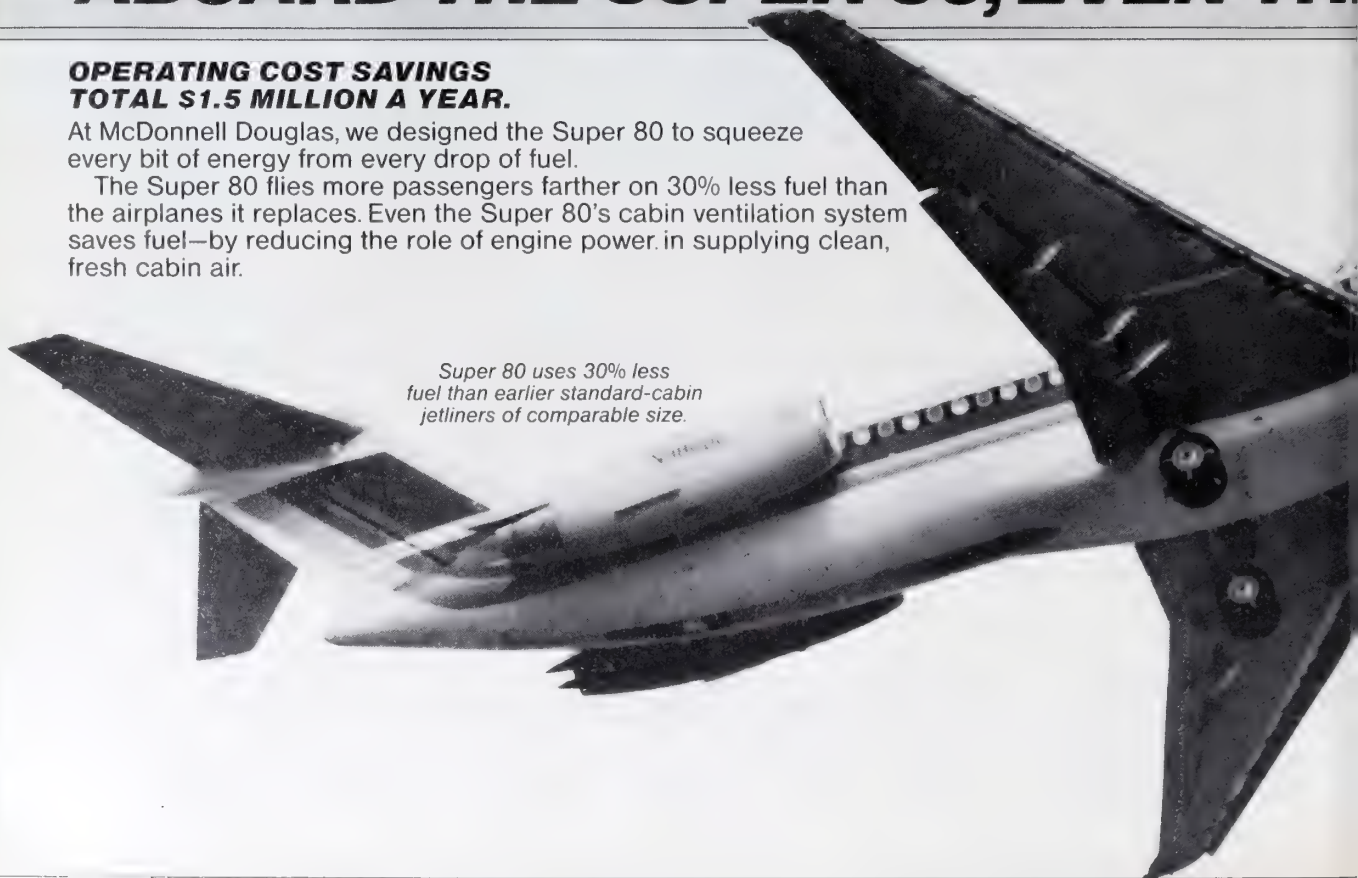
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likely to buy from ITT's local plants no matter how much time and money it takes to make the new system work. It's a way of keeping jobs at home and local technology thriving. A demonstration model has been operating in Belgium since the end of last year; two more were turned over to the German telephone administration in May.

Also, on the positive side, as Araskog and Gibbs both point out, ITT has been expensing the development costs. "Herbert Knortz, our treasurer, wouldn't let me do otherwise," says Araskog. That, of course, means that if the system isn't a big success the company can still avoid a terrible bloodbath. If it should succeed, even Araskog admits System 1240 won't start to make money for ITT until the early Nineties.

Even as ITT was preparing a counter-attack on the switching market, the deregulation forces in Washington had taken aim at its extremely lucrative telegraph and telex business. For years ITT, RCA and, to a lesser extent, Xerox/WUI divided up the international part of this business while Western Union handled the domestic side. On Dec. 29, 1981 Western Union was allowed into the international side of the business and the others were allowed into the domestic. The sparks are already

flying. It seems highly likely that the juicy margins ITT enjoyed for many years will shrivel.

The man who must deal with all these problems is Rand Araskog, a West Pointer who had headed ITT's Defense Communications Division. He will be sorely tested. He has already been bitterly disappointed in France. In its insultingly low offer to

Araskog and Gibbs admit that the System 1240 could cost well over \$1 billion. But ITT has been expensing the development costs. "Our treasurer wouldn't let me do otherwise," says Araskog. That, of course, means if the system does not succeed, it will die quietly.

compensate ITT for its telecommunications operations, the French Socialist government was, according to press reports, spurning ITT's technology. A few months earlier it had been far more generous in buying out Honeywell's French interests—precisely because it wanted to continue technological cooperation with Honeywell.

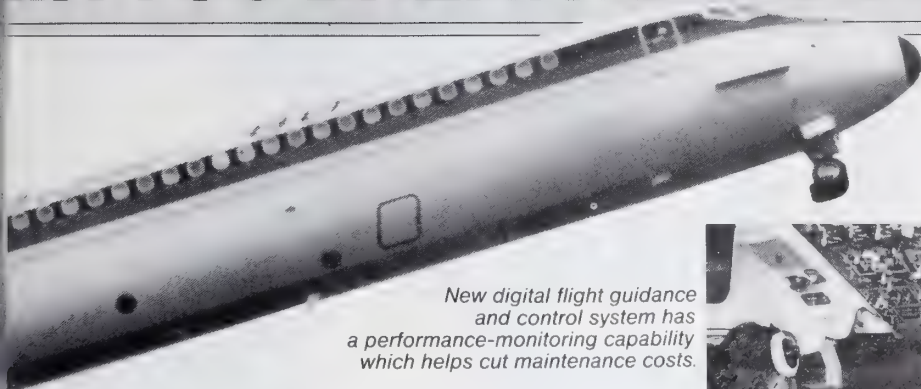
So ITT has lots of catching up to do. Getting the money isn't going to be

easy. In a sick market for timberlands, ITT has been unable to sell its troubled Rayonier subsidiary. It is raising cash by selling Sheraton hotels and taking back management contracts, but the recession and tight money may be slowing this process. Araskog has whittled long-term debt to about 30% of total capital, but the company has had to rely heavily on short-term debt. Short-term borrowings totaled \$1.8 billion at the end of 1981. "Interest alone cost the company \$3 per share last year," says Carol Neves, an analyst who follows the company for Merrill Lynch.

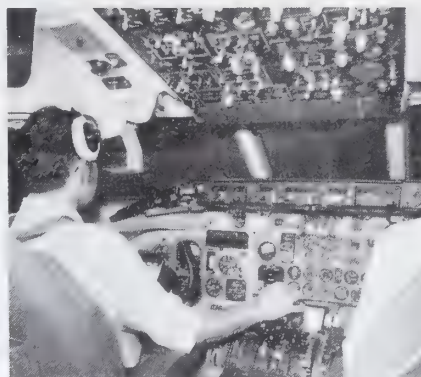
Among ITT's other divisions, Hartford insurance group is on the downside of the insurance cycle. Continental Baking, the surviving company in the food business, is rumored to be for sale. For the first half of 1982 ITT reported a slight earnings drop over the depressed levels of the 1981 period. Its stock recently sold at its lowest level in six years.

Araskog seems undaunted by all of this. He's just 50, which means he has enough time to look at decision-making from a long-term point of view. A tall man with a ready back slap and a hearty chuckle, he recently told shareholders: "ITT is not for the faint of heart." But then they scarcely needed to be reminded of that. ■

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Profiles

Si Redd made millions selling Bally slot machines in Nevada. Now he's gone electronic—and is suing his old company.

Call and raise

By Ellen Paris

BOUNCING OUT OF HIS sleek, brown Rolls-Royce, 70-year-old Si Redd hollers to a Las Vegas parking attendant: "No need to park my car. I'm just running in to pay a marker."

Safely inside Sam's Town casino, Redd ignores the credit window and makes a beeline for the slot machines. Passing the traditional Bally slots, Redd zeroes in on a row of video machines. He gives the video machines a once-over, noting lines of customers waiting to play draw poker. Strolling

up to a change girl, Redd says, "Excuse me, young lady, I was wondering why those poker machines over there are so damn busy? I can't even find myself a seat," he faintly protests.

"I really don't know why," she replies, "but they seem to be popular lately." Redd smiles. "Thank you, ma'am. You sure know the right answers." Redd pulls \$20 from his trouser pocket, presses it into the confused girl's hand. He whirls around, saunters back to his Rolls, content that he has made the point.

The reason for Redd's Cheshire grin? His company, Reno-based International Game Technology, makes those video poker machines. In addition to the traditional mechanical-electric machines, IGT also designs and manufactures video blackjack, keno and slots, which, along with the poker machines, are fast becoming a new wave in Nevada and New Jersey casinos. Today 9% of Nevada's gaming machines are video, and about 90% of those are made by IGT.

Since the company's founding in 1975, annual sales have grown from less than \$3 million to more than \$61 million. Net income in 1981 was \$13.9 million. Do a little math, and you'll



Si Redd of International Game Technology
Just wait until the Pac-Man generation gets to be 21.

see that IGT has 40% pretax margins—although its shares still trade at a price/earnings multiple of 5. Redd controls 65% of the company, worth \$40 million to \$50 million today. Don't worry about how he can afford that Rolls. The day-to-day running of the company is done by IGT's President George Drews. Drews, 52, came to IGT after ten years at Harrah's.

Redd and IGT have caught the lead in video in the casino business. Just as Pac-Man replaced pinball in the arcades, so, too, is video technology invading casinos. Gambling today is mass entertainment, and on Redd's machines novices can make bets as small as 5 cents. One other attraction: An entire generation of new gamblers is being weaned on joysticks and video screens. "All those kids playing Pac-Man are going to be 21 soon, so video games are a natural for them," Redd explains, eyes gleaming. "They all think they can beat the machines."

Casino owners like Redd's games not only because they are played heavily, but also because the machines are entirely automated. That cuts labor costs. Redd's machines are also subject to fewer breakdowns than traditional mechanical slots. Redd keeps an army of 155 repair technicians on duty around the clock, which casino owners note appreciatively when talking about IGT's success. "If my machine is down and I don't get over to fix it pretty quick," says Redd, "the casinos will take it out."

IGT's video machines sell outright for about \$5,000 to \$10,000 apiece, but half of Redd's volume comes from "placements." Redd installs a unit on the casino floor and divides the take 60-40 with the house. "I've actually had him in my office on his knees, begging me to use his machines," says one Big Board gaming company chairman. "I try to keep Si out of our slot departments, because he's got managers eating out of his hand."

Redd's down-home showmanship dates back to Union, Miss., where he was born "15 miles back of the depot," the son of a sharecropper and part-time preacher. "My father preferred preaching to farming," Redd says. Redd preferred neither, noting that he was seven years old before owning his first pair of shoes. He started selling at 13, drumming up business for a dry cleaner and laundry. "I'd go out and walk the streets and talk men into giving us the hats off their heads so we could block them," he explains.

Getting a foot in the door is Redd's forte, a practice perfected by age 18, when he bought a used pinball machine and offered to split the revenues

with a hamburger stand owner if he would take the machine. Within a few years Redd owned 75 used machines, which he placed in drugstores, bars, pool halls and bowling alleys. Later Redd bought some expensive baseball machines, which he used to get himself into hotels. He promptly surrounded the fancy new machines with his junky old pinball games.

By the Forties Redd was Wurlitzer's jukebox distributor for New England and upstate New York. Later he added Bally's amusement line and in 1967 became Bally's distributor of slot machines in Nevada. Redd set up an affiliate called Bally Distributing to serve the casino market and kept 70% of the stock for himself. By 1975 Redd was well known throughout the Nevada gaming industry as "the slot machine king." Eventually Redd got \$7.5 million and sole rights to the company's infant video operations. "That turned out to be the luckiest day of my life," Redd smiles.

Although half a dozen U.S. companies jumped into the casino video game business, none has mustered a serious threat to IGT. Until Bally, that is. It manufactures most of the world's slot machines, has close to \$1 billion in sales and distribution channels to give Si Redd a run for his money.

Bravado aside, Redd recognizes the threat and is suing Bally—trying to keep it out of his market, at least for the present. He alleges that in 1976,

when Bally assigned the video game rights to him, the company agreed not to compete with IGT until 1983. Redd claims that Bally broke this agreement by aggressively marketing its video poker machine.

On July 13 a Nevada court granted a preliminary injunction that bars Bally from producing or selling any video games. But the case isn't over, and the potential damage is already apparent. In the six months that Bally's video poker machine was available, IGT cut prices significantly, forcing the company to forecast lower earnings for 1982. That caused its share price to fall about 35% within one week in June. "We have postponed buying decisions on video poker machines," says Dick Wynn, director of slot operations at the Riviera Hotel in Las Vegas. "We are waiting to see what will happen between Bally and IGT."

Ever the salesman, of course, Redd downplays the threat from Bally—and the prospect that conventional video game manufacturers like Mattel and Warner Communications will start selling gambling-oriented video machines. "Competitors defeat themselves because they haven't had the experience in gaming or marketing that we have," he explains. Meanwhile, he is betting heavily on the future, investing \$4 million this year on research. "We're going to be bigger than Bally," Si Redd predicts confidently. ■

If Sid Topol would focus on the near-term opportunities in overseas markets instead of dreaming about tomorrow, Scientific-Atlanta might get back on track.

The runner stumbles

By Subrata N. Chakravarty

HHEY, I'M GUN-SHY," says Chairman Sid Topol of Scientific-Atlanta, nervously puffing a cigarette. "I don't want to be called a bum anymore."

Scientific-Atlanta, a principal sup-

plier of hardware to the fast-growing cable television industry, has certainly been given the bum's rush by Wall Street in recent months. Its stock was selling at a heady 36 times fiscal 1981 earnings as recently as November. Now it's around 12 times earnings.

What happened? Simply that Scien-

tific-Atlanta stopped growing. Ever since Topol took over late in 1971 the company has grown more than ten-fold in sales, to \$277 million, while earnings have grown 25 times, to \$19 million. In fiscal 1982's first half, which ended in December 1981, sales were up 42% and earnings 37%. Not quite as good as in earlier years, but impressive nonetheless. All that changed late in March, when Topol announced that the third quarter would be flat but the fourth quarter would be back to normal. Wall Street panicked, and the stock fell 16% in a single day. When it developed that the fourth quarter would actually show a decline that, with writeoffs on a failed new product, would more than wipe out the first half's gains, the stock went through the floor.

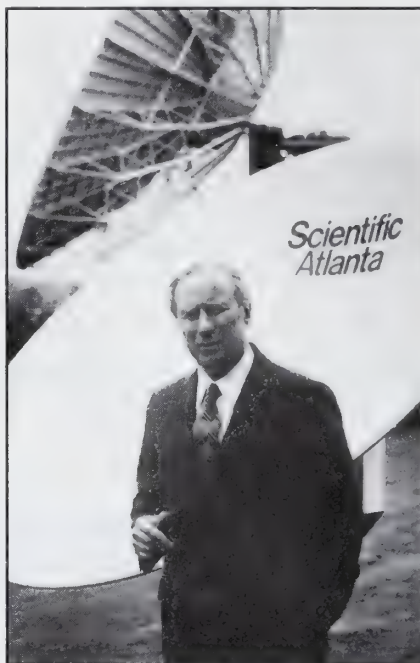
Scientific-Atlanta had sailed through the recessions of 1974-75 and 1980, but not this time. "We found out this year that we are not recession-proof," says Topol ruefully. All the hardware suppliers have been hard hit by the capital spending cutbacks in the cable industry, but Scientific-Atlanta was more vulnerable than most. Growing as rapidly as it was, and with large backlogs, it had geared up to meet a demand that suddenly evaporated. Scientific-Atlanta is also more heavily dependent on the satellite communications and cable television industries than most competitors. About 60% of its revenues come from those two lines of business, the rest from its highly profitable instrumentation business, also a victim this year of capital spending cutbacks. By contrast, M/A-Com and Oak Industries do some 50% or more of their business outside the cable TV industry.

More than most companies in the field, Scientific-Atlanta prides itself on being a marketing company. "IBM built its position on timely development of new products and on marketing," says Topol. "That's what I've been doing."

Topol's preoccupation with IBM led him to compete in many segments of the CATV market rather than stake out a single market, as most of his competitors did. That strategy has paid off handsomely. "Our theory is that if you have a salesman going to a customer, he can sell them the whole range of products. That's what IBM does. That's what Hewlett-Packard does. That doesn't mean that every item in that catalog has the same margins. But it does mean that you could have lower marketing costs."

That strategy has taken years to implement. When Topol joined Scientific-Atlanta in 1971, after 21 years at

Raytheon, it was a tiny supplier of antenna measurement devices and satellite tracking equipment, with 75% of its business going to the military. It also made off-the-air antennas and receiving stations that allowed cable operators to receive commercial television signals over long distances. In the years that followed, Topol added amplifiers to boost the signals over longer distances, taps and passives to get signals from the main cable to individual homes, and coaxial cable. The critical event, however, came in 1974 when Topol got HBO and a handful of cable operators to shift to satellite transmission, with Scientific-Atlanta supplying the satellite earth stations. That made pay-television profitable, and it is pay-TV that



Scientific-Atlanta's Sid Topol
"I don't want to be called a bum."

has made cable TV boom.

Satellite transmission enabled pay service to expand for only the cost of the earth station. It also made possible the live broadcasting of such special events as sports. Cable television boomed, and Scientific-Atlanta took off with it. Today, it's the largest factor in the earth station business.

In 1980 Topol decided to get into addressable set-top convertors, the devices that unscramble cable signals in the home. Addressable convertors permit reprogramming to be done directly from the cable office, thus eliminating a costly service call. It is the only segment of the cable industry today where demand still far exceeds supply.

Scientific-Atlanta isn't one of those supplying the convertors, however. While other convertor manufacturers

such as Oak Industries and the Jerrold division of General Instrument had technical problems, Scientific-Atlanta's much ballyhooed convertor bombed completely and had to be withdrawn. "They had never had any experience making tuners," says Prescott, Ball & Turben analyst Ming Li. "One result was that the convertor was not able to separate channels clearly. The cost was higher than they had anticipated. In their anxiety for the business, they bid too low." Scientific-Atlanta is now testing another convertor, made to its design and specifications by Matsushita, that will be shipped at the end of the year.

Topol acknowledged that for cable to grow, new ways will have to be found to make systems more profitable, especially in the high-cost metropolitan market. Addressable convertors offer one way to reduce costs. To help increase cable revenues Topol is betting on a whole host of in-home services tied to cable, such as burglar and fire alarms, data transmission, shopping services and the like. Scientific-Atlanta is beginning to manufacture modems, the interface devices that make these services possible. But this market will take years to develop in the teeth of formidable competition, not least from Baby Bell, and will require heavy additional investment by hard-pressed cable operators.

But Topol's most appealing opportunity is earth stations. While satellite communications may gradually be overtaken by fiber optic cable in the U.S., as some believe, it is almost certain to remain the only practical method of mass communication for much of the rest of the world for decades to come. That means an almost endless demand for earth stations. Over the last 18 months Scientific-Atlanta supplied 180 earth stations to Mexico and 33 to Brazil.

At the moment only 20% of Scientific-Atlanta's business is done outside the U.S. Topol can build his company's growth rate back up quickly simply by concentrating on overseas markets with a product line in which it is already the leader.

American management is often—and perhaps rightly—criticized for focusing too much on short-term results. Curiously, Scientific-Atlanta really ought to concentrate on short-term growth. Not because that's what Wall Street wants, but because in a feeble economy it is not possible to do everything. If the other markets do develop, there will be time enough to jump in with reliable products and good marketing, as Sid Topol's ideal—IBM—has done more than once. ■

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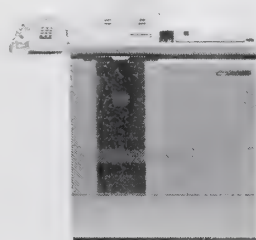
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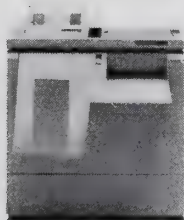
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By copying the products of Nike and Adidas, Amfesco Industries has quadrupled in size and become hugely profitable in just four years. But what about an encore?

Knockoff

By Jane Carmichael

DAVID GREENBLATT, the hearty 57-year-old president of Amfesco Industries, is showing a visitor around his one-story brick factory in Plainview, N.Y. He pauses beside a draftsman who is studying a red canvas rubber-soled shoe and making sketches on a piece of plain brown paper. "See this?" says Greenblatt, picking up the red shoe. "This was made in Korea. It just came in this morning. We'll be finished knocking it off by this afternoon, and we can be in production within two weeks."

At \$65 million (estimated fiscal 1982 sales) Amfesco, "knockoff" is not a dirty word. Amfesco's copies of pricey brand-name shoes like Adidas, Nike and Bass sandals sell as house brands in such places as K mart and J.C. Penney, usually for less than half the price of the originals. Over the last four years Amfesco's sales have quadrupled, and profits have risen from pennies a share to an estimated \$2.20 in the fiscal year ended in June. Between 1978 and 1981 return on average equity rocketed from 9% to 71% on level debt.

Amfesco started life 80 years ago as a carpet-slipper factory in the Bronx. Greenblatt's Russian-immigrant grandfather Max and father Reuben earned a comfortable living making low-priced slippers and casual shoes (still 35% of sales) for discount outlets and variety stores.

What happened to propel the company to its sudden prosperity? Partly it was the growth in Amfesco's discount store outlets (FORBES, Jan. 4). But mostly it was the trickle-down to

the masses of the Seventies' jogging mania. No serious runner would dream of wearing a \$12.99 running shoe instead of, say, the \$49 Nike Internationalist. But the millions of ordinary Americans who want to be comfortable and look fashionable—all those people who wear sneakers on their way to work or to the shopping mall—have been snatching up Amfes-

"As long as you have to put something on your feet, we're going to make it, whether it's that little slipper there or this jogger or anything your eye can imagine," says Amfesco President David Greenblatt. "We can make a mold in any manner, shape or form."

co's knockoffs as fast as the company can churn them out.

Back in his office, Greenblatt picks up two running shoes from a shoe-store-style rack in the corner. Both have three slanted stripes emblazoned on the sides. "Which is the Adidas?" he asks with a grin, pausing for effect. "This one is ours," he says triumphantly, holding out the one on his left. "It's called Trax—that's K mart's brand, the third most popular advertised running shoe in the country after Nike and Adidas. The only difference is that their sole is made in two pieces and pasted together, and ours is injection-molded in one step. The upper parts of the shoe are exactly the same. We use the same nylon, the same leather. But theirs is \$30 and ours is \$12.99."

Naturally, a lot of what the Adidas wearer pays for is the snob appeal of the name. Still, how can Amfesco sell virtually the same shoe so cheaply and still make so much money? One big reason is that the company does over half of its manufacturing in Puerto Rico. Labor would be cheaper in the Far East, where most Nikes are produced, but Amfesco has a tax holiday in Puerto Rico that runs through 1993. Result: Its effective tax rate last year was around 6%. Amfesco started manufacturing in Puerto Rico back in 1967, when David Greenblatt's younger brother, Allan, who had been taking vacations there for years, became friendly with bank officials and government people. (That's according to Allan. David claims it was all his idea.)

Amfesco uses some other tricks to keep its costs down:

- It does almost no advertising because it makes only one branded shoe of its own—a double knit loafer called the Knit-Kicker that's popular with retired people.

- It designs its shoes so all parts wear out at the same time. "The customer gets a bad taste in his mouth if one part wears out before the rest," says Greenblatt. Of course, making a shoe only as strong as its weakest part is also a sensible way to cut costs.

- Nike and Adidas soles are made by hand on a production line; Amfesco's injection-molding is a cheaper one-step automated process.

Of course there's more to success than just cost-watching in a fashion business. You need a keen market sense. Here, customers say, Amfesco excels. One calls Amfesco "one of the best in the business at judging what the customer wants."

Greenblatt's 40 years of experience are an important asset. He started working at American Felt Slipper (as Amfesco was called before it went public in 1971) when he was 17 years old. In fact, the first sewing machine he used in the factory now serves as the base for a glass-topped coffee table in his office. At the ripe old age of 21 he left to start his own company, Times Footwear, but later merged it into American Felt Slipper when his father died in 1951. Greenblatt has been watching new shoe trends for so long he is hard pressed to explain how he does it.

In the showroom across from his office, Greenblatt picks up a gray sweat-shirt-fabric ballerina slipper with a lavender bow on top. "This



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The Up & Comers

style will be very hot next year," he says. Amfesco is making the same shoe in other fabrics as well. But Greenblatt doesn't remember how he got the idea for the shoe. It could have been at a fashion show in Paris or Milan—the same shows the fancy shoe manufacturers go to. "The Europeans are usually ahead of us," he says. Or it could have been on one of his twice-weekly shopping expeditions around the New York area. "The Massapequa shopping center has 27 shoe stores. Roosevelt Field has 22. Walt Whitman has about 16." Or the ballerina slipper could have been brought to his attention by one of his longtime customers—like Meldisco, the Melville Corp. unit that runs K mart's 2,000 shoe departments (50%

tion in 1961 just after Amfesco got its first injection-molding machinery. Greenblatt claims Amfesco was the first shoe company in the U.S. to buy the new German-built equipment. He grimaces when he recalls what it was like making shoes by hand. Says he, "First you stitched the shoe on the left side and then you turned it inside out and put the shoe on a wooden form. In order to turn it inside out, you had to put your fingers into it. It would be six months before your hands would stop bleeding. We had to go home and soak our hands in pickle brine to toughen them up."

As far back as 20 years ago Greenblatt was convinced that sneakers and similar rubber-soled shoes would be the wave of the future. He recalls a

In fact, given the spectacular success of Amfesco's Nike and Adidas knock-offs, it's somewhat surprising that no one yet has sued for trademark infringement. Apparently, no one has noticed. When asked how Nike felt about Amfesco, the company lawyer replied, "We never heard of them. How do you spell their name? What's their address?"

Greenblatt brushes off such implied threats by observing, "A design patent is the most difficult thing to sue on in the U.S." Another question is why, with its stock selling at only 4 times earnings—against Nike's 12—Amfesco hasn't encountered any takeover offers. One reason might be the recent "personality conflict" between Allan and David (David says Allan is too conservative) that caused Amfesco to buy Allan out for \$12.6 million. That left a comfortable 50% of Amfesco's stock in David's control. But how long that will last is an open question, since the company had to borrow \$15 million at floating rates to arrange the buyout. A public offering of Allan's stock would wipe that debt off the books, but only at the risk of triggering a takeover threat.

But here's the biggest question of all: What can Greenblatt do for an encore? He realizes the company can't keep growing forever at its present rate—he says he would be content with 20%-a-year growth, which seems reasonable. Amfesco has already had one brush with overexpansion. In 1973 it built a 150,000-square-foot factory in Plainview, just in time for the oil embargo and recession. Amfesco lost \$1.94 a share in 1974 and wound up shutting down most of that factory.

Greenblatt claims he's not worried about the prospect of an end to the jogging-shoe craze. Says he, "As long as you have to put something on your feet, we're going to make it, whether it's that little slipper there or this jogger or anything your eye can imagine. All you are talking about is a mold, and we can make a mold in any manner, shape or form." He talks of making more brand-name shoes and selling to department stores, which would be quite a departure from Amfesco's traditional distribution pattern.

Can David Greenblatt capitalize on the bonanza of the last four years and make a real growth company out of Amfesco? Or did Allan Greenblatt sell out at the high?

Place your bets. The horses are at the post. ■



Amfesco President David Greenblatt with knockoffs

"A design patent is the most difficult thing to sue on in the U.S."

of Amfesco sales).

The mere fact that a new shoe design looks like a fashion hit doesn't mean Greenblatt will make it. It also has to be adaptable to injection molding. That way, all Amfesco has to do is copy the upper—"the easy part," says Greenblatt—and design a new mold for the sole. It takes maybe three months altogether, even less time if the company can use a mold that it already has. That's why Greenblatt can have that red Korean shoe in production in just two weeks.

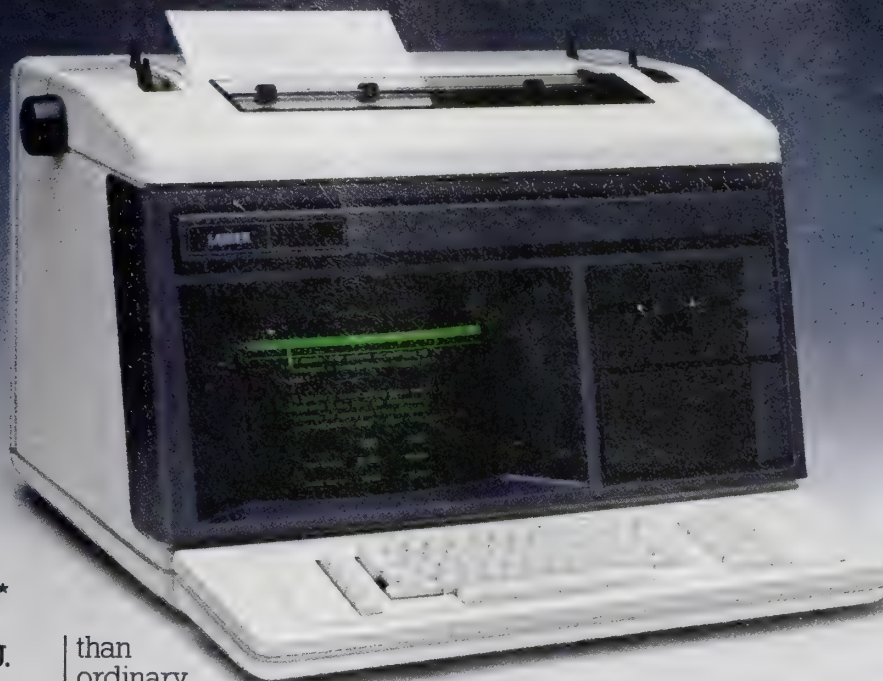
Athletic shoes are a natural for injection-molded soles, of course, which is one reason Amfesco started making them. Its first, a knockoff of Keds (then made by Uniroyal), went into produc-

conversation he had years ago with Thomas Bata, founder of Bata Shoe, the giant Canadian shoe company. "Bata had 100 or 150 factories all over the world, mostly in underdeveloped nations, making these plain canvas shoes with rubber soles. I asked him why. He said, 'There are 150 million people walking around barefoot, and before they'll put on a leather shoe, they're going to have to put on a fabric shoe or a sneaker because they're more comfortable.' That stuck with me through all the years and made a hell of a lot of sense." Amfesco has never sold overseas, but Greenblatt was sure the Americans would want to be comfortable, too.

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The Up & Comers

Pic 'n' Save can't resist a bargain, and neither can its impulsive customers.

Lemons to lemonade

By John Merwin

THE FUN PART of this business," explains Pic 'n' Save President Arthur Frankel, "is never knowing what merchandise is going to walk through the door next."

Frankel and Pic 'n' Save founder and Chairman William Zimmerman know that at some price Pic 'n' Save shoppers from Texas to California will buy most anything. Even if they don't immediately need Vidal Sassoon soap, which didn't sell in conventional retail markets, or last year's Darth Vader underwear, since succeeded by trendier villains, they will buy anyhow. Impulse-buying is the name of the game at Pic 'n' Save's 78-store refuge for wayward merchandise, an orphanage for manufacturer's closeouts, overruns, has-beens and never-wases.

Take the case of Cepacol mouthwash, produced by Richardson-Vicks. Cepacol is known by its yellow tint. Richardson decided a green, mint-flavored Cepacol might do well against Procter & Gamble's Scope, the best-known green mouthwash. So, in a few markets, Richardson tested green Cepacol against Scope. But it bombed, and Richardson came to Pic 'n' Save hoping to unload thousands of cases of the stuff. Pic 'n' Save bought it for cash, cheaply enough to offer customers a 24-ounce bottle for \$1.29, half the going retail price for regular yellow Cepacol.

What's in the deal for Richardson? Richardson not only unloaded a sea of green Cepacol for cash, but by selling the failed experiment to Pic 'n' Save, the body was quietly buried. Pic 'n' Save agreed not to advertise half-price

mouthwash, lest it offend those selling regular Cepacol down the street at full price.

Zimmerman regularly visits trade shows, not to see what manufacturers are offering new but to ask what dogs they might wish to unload from the warehouses back home. Lemons to lemonade, as the saying goes.

Pic 'n' Save outlets are filled with all sorts of high-turnover merchandise. But unlike competing regular discount chains, like K mart, there are no continuing lines. What's in the stores is simply whatever bargains Pic 'n' Save's buying staff was able to root out in recent months. Behind any stack of merchandise in Pic 'n' Save

lies a story. A manufacturer may start worrying that he's carrying too many pairs of red gym socks, or that he has a glut of swimwear or thermal underwear late in the season, or perhaps shelves of last year's Yoda T-shirts just when this year's E.T. model is hot off the line. It could be a price change, packaging redesign or burned-out product that offers a buying opportunity to Pic 'n' Save. Bill Zimmerman likes to concentrate on merchandise that's strictly an impulse-buy and generally priced under \$10. An item priced over \$10 might require consultation with a spouse, and that little delay might undermine Pic 'n' Save's "get-'em-while-they're-hot" strategy.

Consider the million dollars' worth of Cool-Ray sunglasses, display racks and all, Pic 'n' Save bought from Warner-Lambert two years ago. "Warner-Lambert decided to get out of the sunglass business," Frankel says. "Essentially they had three choices. The first was to grind up the sunglasses. The second was to sell to us, and the third was to sell to a broker." A broker might have paid more than Frankel. However, the sunglasses might then have wound up back in Warner's lap if its regular retail accounts had gotten hold of the glasses and returned them for credit. Rather than taking a chance on that, Warner sold them to Pic 'n' Save, which in turn sold the glasses for less than half the regular retail price.

Southern California-based Pic 'n' Save, which has no major imitator, has this system down to a fare-thee-well. While both the manufacturer



*Pic 'n' Save Chairman William Zimmerman and President Arthur Frankel
"Above all, we're opportunists!"*

bailing out and Pic 'n' Save's retail customer get a deal, Pic 'n' Save doesn't do too shabbily itself. Standard operating procedure is to buy a brand name for 25% of full retail price and sell at 50% of retail.

That leaves a tidy profit for middleman Pic 'n' Save. The company's return on stockholders' equity has hovered around 30% the last few years. That's all the more impressive since Pic 'n' Save has almost no debt, remaining liquid so it can pay cash at a moment's notice. In recent years net income has risen 25% or better annually and in this year's first half jumped 38%, to \$8.1 million, on sales of \$65 million. Why? Pic 'n' Save nets 12 cents on a dollar of sales, while K mart and Woolco, the closest thing to direct competition, net only a cent or two.

"Above all, we're opportunists," says Frankel, tapping his bulky Mediterranean desk, bought from a failed wholesaler. Many Pic 'n' Save store locations reflect that predatory nature, being in former grocery store space, bought or leased for bargain rates. But thriftiness does have limits at Pic 'n' Save. The new stores, generally profitable shortly after opening, do best sticking to middle-class neighborhoods. Even though real estate costs are higher there than in marginal neighborhoods, the requisite purchasing power—necessary for impulse-buying—is within driving distance.

Pic 'n' Save whets the impulse-buying urge, and fattens its margins, by conspicuous lack of advertising. Less than 1% of sales is spent on promotion. The absence of continuing lines of merchandise helps, too. At any given moment, Pic 'n' Save devotees have no idea what they may discover in the stores, so stopping by regularly becomes almost mandatory. "In a lot of cases customers aren't going to use the item, but they remember seeing it for \$5," says founder Zimmerman. "Now they see it for \$2, so they buy it because it's a bargain and they can't pass it up."

The seeds of the Pic 'n' Save philosophy were planted years ago by Zimmerman. He was a kid from New York's Lower East Side who was forever finding ways to turn a buck. As a boy Zimmerman bought stalks of sugarcane in Chinatown, walked 20 minutes back home, cut up the cane and sold pieces to neighbors at a profit. Later he bought used clothing door-to-door in the morning and sold it that afternoon in a tiny store. Even while serving in the Philippines during World War II, Zimmerman was mak-

ing money on the side selling costume jewelry, mailed from New York, to native Filipinos.

After settling in Los Angeles following the war, Zimmerman took a night job welding so he could traipse around by day, knocking on manufacturers' doors. "Buying and selling was what I knew," Zimmerman says, "so I ran around to see what manufacturers had left over."

Zimmerman bought anything from shirts, which he peddled one-by-one in bars, barbershops or wherever men gathered, to plastic household items, which he sold to grocery store accounts. Soon he opened his own retail store in Los Angeles, Freight Outlet, where Zimmerman's family lived in the back. During the day, while he was out looking for merchandise, his wife ran the store.

By the mid-Fifties, Zimmerman had two stores and a growing busi-

"In a lot of cases customers aren't going to use the item, but they remember seeing it for \$5," says founder Zimmerman. "Now they see it for \$2, so they buy it because it's a bargain and they can't pass it up."

ness. He asked Frankel, a cousin by marriage, to fly out from New Jersey to consider joining him. Frankel, a lathe operator who on weekends had been buying war surplus hardware and selling it at flea markets, borrowed the plane fare from a relative and flew west. He went to work with Zimmerman the next day.

Zimmerman did the buying, paying on the spot by check or cash. Frankel picked up the merchandise with a truck and drove it to a small warehouse or one of the stores. As the business grew in the late Sixties, Zimmerman opened more stores and changed the name to Pic 'n' Save, riding the operation of the salvage merchandise image. Pic 'n' Save went public in 1972. Today Zimmerman owns 31% of the stock, which at a current price/earnings multiple of 12, is valued at over \$80 million. Both he and Frankel have sons in the business, which remains tightly knit, with only one outsider on the board.

Zimmerman no longer uses up the shoe leather he once did, because 80% to 90% of the deals walk in the door. Many of the products, bought from several thousand sources, have recognizable names—Jell-O, Wrigley, Lever Brothers and so on. That's the first

prerequisite for a good buy. Other factors, besides price, in whether to buy a carload or less of widgets: Can Pic 'n' Save advertise the item? How long will it have to be held in inventory? Will much shrinkage occur? (Costume jewelry is often shoplifted, and candy is damaged by customer handling.) To set the retail price, always 40% to 70% off the original price tag, Frankel asks one question. "If I were a Pic 'n' Save shopper walking through the store, having no use or intention to buy this commodity, what would I pay for it?"

If the price is low enough, Pic 'n' Save will buy vast quantities of almost anything. For example, three years ago Pic 'n' Save bought \$1.5 million worth of Lassie pet supplies discontinued by a subsidiary of Campbell Soup. That's far more than Pic 'n' Save could sell in a few months' time, but Frankel paid only 11% of the retail price. Within a year Pic 'n' Save had sold 40% of the inventory and had its money out of the deal. So even if the other 60% is sold for a penny on the dollar, it will be profitable.

Occasionally Pic 'n' Save errs and winds up marking merchandise way down or simply giving it away. A few years back the company bought thousands of "fiddle sticks," a stick on which kids were supposed to twirl small wooden hoops. Even Pic 'n' Save couldn't move those dogs and finally wound up giving them away. Cracks Bill Thomas, chief financial officer, "We blew it. We could have sold the sticks for a dime apiece as tomato stakes."

With bargain hunting an in thing to do in these troubled times, Pic 'n' Save's strategy is working nicely. "Maybe you're headed out to buy this year's shade of blue sweater with an alligator on it," Frankel says. "However, you might stop by Pic 'n' Save to see if we have one in another shade of blue that might do for wearing under your Windbreaker. Or you need a wastebasket for under a work bench and don't care whether it's this year's color, harvest gold, or last year's, avocado green. So you stop by Pic 'n' Save to see if we have one."

The strategy is working like a charm. Adds Frankel, "We've got a store in Encino [a well-heeled Los Angeles suburb]. When we opened that store people used to park a block away, or in the restaurant parking lot across the street, to avoid being seen driving into Pic 'n' Save. Now it blows my mind to sit there and watch all the Mercedeses and Cadillacs pull into the Pic 'n' Save lot." ■

As I See It

Do laid-off autoworkers need to work in McDonald's? No, says this expert; a service economy upgrades skills.

So, what's wrong with a service economy?

By James Cook

AS THE RECESSION has deepened and more and more of the U.S.' traditional manufacturing economy has shut down, much of it permanently, it has become clear that the U.S. is going to have to depend more and more on the service industries for jobs and for economic growth. To most people, the services seem like a feeble reed for a great nation to cling to—low paying, economically unproductive, incapable of generating the kind of growth and affluence the U.S. is accustomed to. That's the conventional wisdom. Last year Ronald K. Shelp, a vice president with New York's American International insurance group, challenged this conventional wisdom in a book, *Beyond Industrialization: Ascendancy of the Global Service Economy* (Praeger, \$29.95). In it Shelp argues that the shift to a service economy, while painful, is good for us in the long run. He tells FORBES why.

Shelp: In terms of the way economists define it, in terms of jobs, the U.S. has been a service economy since about 1945, when over half of Americans were employed in services. Since then the proportion has grown dramatically. By 1980-81, 72% were employed in services. [In dol-

lars] services are now over half the GNP—about 65%. We're making policy as if we are an industrial country, and not dealing with the fact that we aren't.

Look at our leading economic indicators. They come out every month, and what do they measure? Inven-

tories, job creation, manufacturing confidence, housing starts and so on. In my opinion they don't really measure the U.S. economy because very few of them have anything to do with the service sector.

Having said that, it is a very tough thing to start measuring. Yet we make a series of conclusions about how well or how poorly the U.S. economy is faring based on judgments of how an industrial economy should be faring. Which, again, we haven't been doing for 40 years.

As we become a service economy our standard of living will decline—maybe I should say continue to decline

Shelp: Well, it may or may not. People have never come to grips with the problem of productivity in services. Because nobody knows how to measure it. A lot of people blame services for our declining productivity because services are supposed to be so unproductive. They contribute more to inflation than big, labor-intensive industries, and it takes five service workers to do what one manufacturing worker can do. I doubt that is true, but when we deal with the problem of national productivity, we don't address how you measure and improve productivity in services but productivity in manufacturing. So we are not really addressing the problem.

The assumption is that it is very hard to improve productivity in nonmachinery, labor-intensive businesses; if you issue loans or insurance policies, you just have to have people to turn out these policies, and the more policies, the more people. But if you look at word processors and all the other technological changes going on in service companies, I suspect the potential for improvement in services is a lot better than we think it is. People have this built-in bias against services. I don't know if you saw that piece in the *New York Times* the other day—"Big Mac versus Big Steel." What bothered me was not the either/or but equating the service economy with Big Mac.

Jobs in the service sector often are lower paying than those in manufacturing.

Shelp: When people think of



American International's Ronald Shelp
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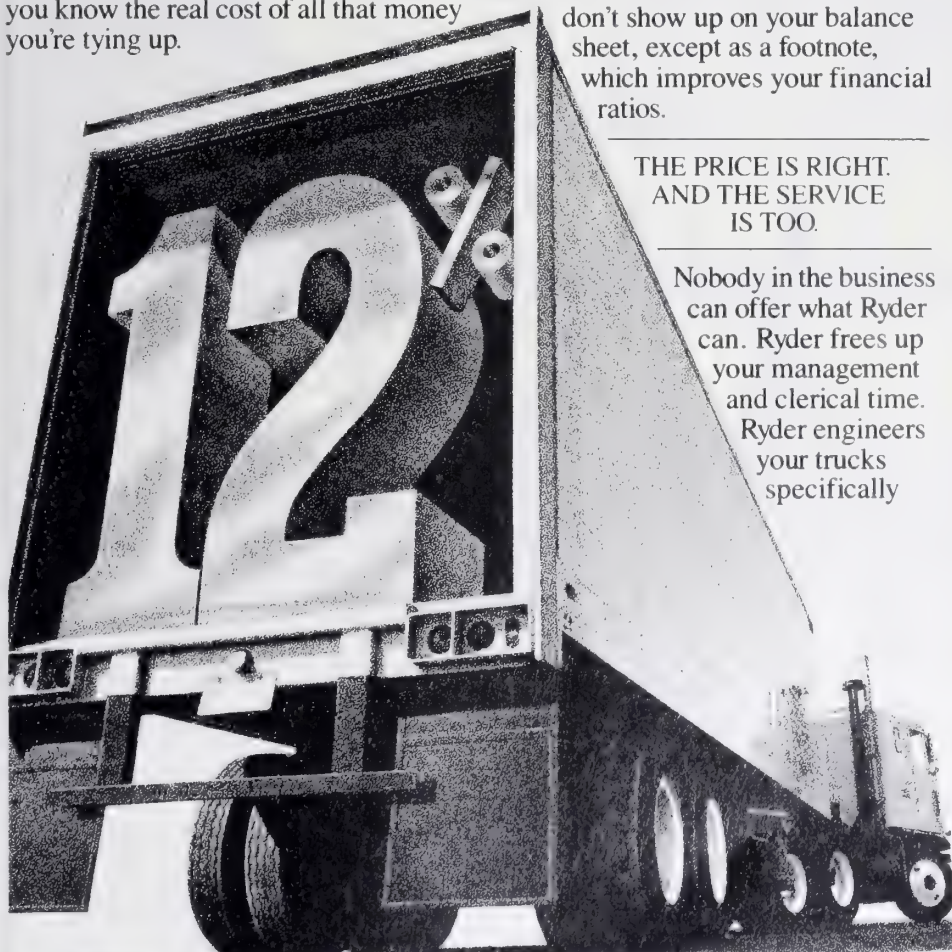
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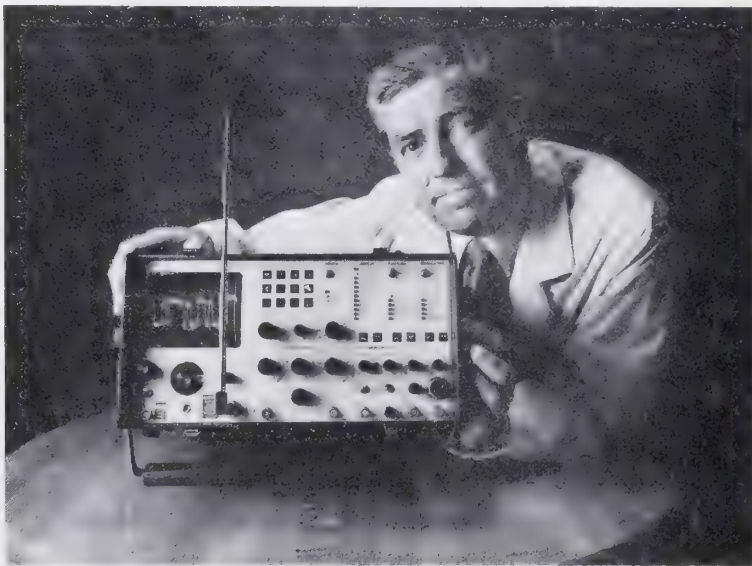
There isn't another piece of service equipment like it. Amazingly, it not only services all Motorola's land mobile communications products, it can service anyone else's. As a result, the R2001 has expanded the test equipment market for us, in addition to providing a better tool for our own people.

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As I See It

services, they first think of government and then of menial services. And the wages in those kinds of services are lower. But services also include the high-technology services, the professions, accounting, construction companies, telecommunications companies, banks, insurance companies, advertising. Look at the wage level there. You're in a different ball game. Henry Kissinger once said that a great nation cannot be a nation that depends on hamburger franchises. I agree with him absolutely. The trouble is, I don't think that's what the U.S. service economy is about.

You know, the only thing that Marx and Adam Smith probably agreed on is that services are parasitic. They both say that: The services aren't productive, they don't really contribute anything to the gross national product or to growth. There are a whole series of assumptions about services. They're always said to be labor-intensive as well as low paying—some are, some aren't, some are even capital-intensive. They are associated with low technology, low skill. There is a propensity for services to employ women, minorities, part-time workers. And these traditional assumptions are definitely true—for some service industries.

But they are parasitic, aren't they? They really do feed off everything else that goes on in the economy.

Shelp: The real point for me is that they're integrated. It's not services or manufacturing. They complement each other. Look at the socialist countries, where they have made a concerted effort to allocate their resources to industry, big industry. But, as we know, their industry doesn't work very well. There is no effective distribution system, no effective transportation system, communications system, marketing and so forth. That's one of the big problems for the Soviet Union and quite a few other socialist countries, and countries such as Hungary and Rumania are beginning to think about it.

A novel thought: Socialist industry is inefficient because it is excessively industrial. So you're suggesting service industries really provide a sort of infrastructure for industrial development

Shelp: That's right. The lines are beginning to blur. Industrial companies are already selling services, a lot of them both domestically and internationally, and one day you'll find services

acquiring manufacturing. Take the oil companies. They're being forced into the service business overseas by nationalism—Aramco in Saudi Arabia, some of the companies in Libya. They are no longer equity holders of oil companies. They are supplying their expertise, management and consulting services to government or to the new owners. Eventually, they will start exploiting these skills and services everywhere.

Or take construction and engineering services. The Bechtels and the Fluors and all these great companies aren't just selling services, design and construction, they are also selling goods, selling an incredible amount of goods, and the likelihood is, when they get an international contract they will choose the engineering, design and equipment from those they know—that is, the U.S. producers.

The point is that services and man-

The point is that services and manufacturing are linked, integrally. The development of the service sector can encourage the growth of manufacturing.

ufacturing are linked, integrally. The development of the service sector can and should encourage the growth in manufacturing. The great pity is, a lot of people equate the rise in the service economy with the decline in our traditional manufacturing industry. They assume that nothing is going to be manufactured and produced in this country anymore. If you read economic theory, you know some economists say that societies go through three stages—agricultural, industrial, post-industrial—and the third phase is supposed to be the most advanced stage, the stage where we have really arrived as an economy, where we are a truly sophisticated, advanced technological society.

Not much help to me if I lose my job.

Shelp: You ask, where are the people in these declining industries going to work? The obvious conclusion is they are going to work in the service sector and hopefully at something other than franchising or at low wage levels. There is a good bit of data showing that that's what has been happening since the turn of the century—when people left the agricultural sector, the majority of the jobs weren't filled in the industrial sector. Even as we were becoming an industrial nation, they were filled in the service sector.

That's been true in the U.S. throughout the 20th century. The U.S. service sector has done quite well in producing jobs in bad times, and not just jobs in McDonald's either. Between 1977 and 1980, in fact, employment in eating and drinking establishments rose 18%, but employment in business services increased 32%, with computer and data processing up 64%. Job gains of more than 25% occurred in legal services, engineering and architectural services, and accounting, auditing and bookkeeping.

And, of course, government remains one of the dominant forces in the U.S. service economy.

Shelp: That's true and not true. There's a tendency to think of the growth in government as being primarily responsible for creating jobs in the service sector, and you can't minimize it. But in recent years government employment has dropped at the federal level. It has not leveled off much at the state and local level [and] this New Federalism, if that works, should probably encourage more growth there. I don't want to minimize the role of government, but I don't think that's where all the action is. In terms of employment, the U.S. would be a service economy without government. Barely. But so, I think, would quite a few other countries, including some developing ones.

What shocked me, when I started looking into this, is how many developing countries are service economies already. They haven't gone through the other stages. Maybe they don't have to. Maybe imitating industrial countries like the U.S. is not necessarily the pattern that everybody has to follow. I initially thought the data would show they were all shining shoes and selling pencils, but there are a surprising number in commerce, retail trade, transportation, things you wouldn't expect. And when you get to developing countries that have really fostered the service industries, such as Singapore and Hong Kong, they are in the same kind of service industries that the highly skilled service workers are in this country.

Of course, in a lot of these countries, government service is used as a means of solving the unemployment problem, much as we used the Post Office here right after WWII.

Shelp: Government is one of the main reasons some developing countries have service economies. Not just as a means of solving the unemployment problem, but because governments have accepted the responsibilities for

accelerated economic development and growth, as well as welfare, leisure-time activities, good health and educational facilities—responsibilities that, when we were developing, our government didn't assume.

What you're suggesting is that if we go on trying to find solutions to problems in the economy by focusing on the industrial sector, we're going to be pursuing the wrong solutions to the wrong problems.

Shelp: The problem of adjustment is a very difficult one. I have no doubt that certain companies in certain traditional industries are probably finished. Particular steel companies may have had it, but that doesn't necessarily convince me the U.S. steel industry is finished. I think part of our traditional industry will come back. The tough part is determining when to let the weak ones fail in the struggle and when to provide government assistance. I don't think the U.S. is very good at that. Everybody says the industries to foster are services and high technology. But how then do you determine which high technology you want—which are the good ones, which aren't, which services are good and which aren't, and finally which traditional industries you'll save?

Proponents of reindustrialization wouldn't agree with you. They dream of restoring the good old days.

Shelp: Reindustrialization is probably a misguided policy. We should really concentrate on cultivating our services, our technology and the traditional companies and industries that can and should survive. Obviously we have to factor in things like national security in making those decisions.

Scant comfort to the permanently laid-off autoworkers. Robots taking their jobs.

Shelp: Robotics is scary, especially the type the Japanese have moved in on. But I suspect robotics will create new business opportunities, new industries, new technologies. They are hard to fix in advance. That has always happened before in technological change: New technologies inevitably create new jobs themselves. Intuitively I think that's true. There obviously will be unemployment and job changes, but the problem to my mind is providing the incentive for retaining and relocating people in new areas. There is something to be said for certain kinds of planned adjustment. It's nice to think about the invisible hand taking care of everything, retraining and relocating people, but I think other countries are a lot more creative about it than we are. ■

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Actual Size

Want to maximize results in a slow-growth business? Take a lesson from funeral home leader Service Corp. International.

Death and real estate

By Anne Bagamery

AT 40, B.B. (Ben) Hollingsworth is president of \$162 million (sales) Service Corp. International, the biggest company in the fragmented \$5 billion-a-year funeral business. Clearly, death is one of the most recession-proof industries around; yet Hollingsworth has his frustrations. "I've been going to analysts' meetings for seven years," he grouches, "and I have yet to hear a new funeral joke. 'Things pretty quiet around the office, Ben?' 'Knocking 'em dead this year?' Real funny."

Joking aside, Hollingsworth's Houston-based company has compiled a respectable record doing what most people won't even talk about. SCI doesn't brag about its size. The overwhelming majority of the nation's 22,000-odd funeral parlors are family owned and operated, so SCI keeps corporate trappings out of sight in its own 280 homes. "At a time like that," says Hollingsworth, "you want to deal with people, not a company."

Behind the folksy facade, though, SCI is strictly business. SCI became the biggest fish in the pond by buying out its major competitors—the funeral-services arm of National Kinney in 1971 and IFS Industries in 1981. It also buys good-size family-run homes in big cities. Then SCI organizes its operations into regions and consolidates purchasing and personnel. As a result, revenues have grown 18% a year for the past decade, earnings per share by 19%, to \$2.79 before extraordinary items in fiscal 1982. SCI owns and operates fewer than 1.5% of the nation's funeral homes but conducts over 3% of the nation's funerals.

SCI common stock has quadrupled over the past two years, to around 25, or 9 times earnings. The stock has

become the darling of analysts, who happily track such arcana as flu epidemics and heat waves while preparing their recommendations. One reason: SCI's managers are masters of maximizing short-term results.

Take its real estate business. SCI owns 4,220 acres of land, much of which came along with funeral homes acquired over the years and

call it a recurring gain because we're going to do that every year." He has enough cemetery land, he figures, to keep up with what he delicately calls his "potential caseload" and still make deals that will net 20 cents to 25 cents a share through the end of the next decade—assuming the real estate market holds up. Meanwhile he plans to buy more new cemeteries, potentially giving him more undervalued land for his portfolio.

SCI got its start in the early Sixties after Robert Waltrip, now 51 and chairman, had to drop out of Rice University after his father's death to help run the Houston funeral home his grandfather had founded. While waiting to return to school, Waltrip looked around at the funeral industry and saw glaring inefficiencies. "Funerals are a hurry-up-and-wait business," explains Hollingsworth. "Every home has a bunch of people—directors, limousine drivers, embalmers—sitting around 75% of the time waiting for the phone to ring."

Waltrip got the idea to buy up other homes in Houston and consolidate services in order to cut personnel costs and negotiate bulk rates for ev-



SCI President Ben Hollingsworth

"At a time like that, you want to deal with people, not a company."

only half of which is developed. Though carried on the books at \$42 million, or \$10,000 an acre, the land is actually worth many times that. But Hollingsworth isn't sitting on the land, he's selling it—a little at a time and attractively packaged. Last July he sold 25 acres outside Kansas City for an aftertax gain of \$1.4 million, or 23 cents a share.

"Analysts call that a nonrecurring gain," he says of the land sales, "but I

everything from caskets to embalming fluid. In 1967 he recruited Hollingsworth, a C.P.A. with Arthur Young & Co., to sit at his feet. In 1968, with \$3 million in seed money from nearby American General Life Insurance, Waltrip and Hollingsworth went out shopping and haven't stopped.

A typical SCI acquisition is a larger-than-average funeral home where profits are good—generating perhaps \$500,000 in revenues and netting

\$100,000 pretax. SCI normally pays 5 times pretax earnings, 20% in cash and the rest over 20 years at less than 10% interest. It can get away with terms like that because it gives the seller two things he very much wants—estate liquidity and the tax advantage of deferred capital gains—and lets him keep his job.

It's not hard for SCI to show impressive gains on its acquisitions. Family-owned companies are run with more thought to minimizing taxes than to dazzling analysts, so their accounting reflects it. SCI can easily boost earnings by cutting back on salaries and perks. And it doesn't take much to keep the customers coming in, despite the change in ownership. People are loyal to their neighborhood funeral homes. "You really have to try to alienate someone," says Hollingsworth.

There are perhaps 1,000 independent homes that meet SCI's criteria, and Hollingsworth plans to buy 7 or 8 of them a year. That won't reduce SCI's 73% debt-to-equity ratio much, but SCI services the debt handily with steady cash flow from funerals (backed by insurance companies picking up most of the tab). The U.S. death rate is projected to go up 2% a year through the year 2000. Because funeral homes have such high fixed costs—typically 50%—each percentage-point increase in volume boosts earnings 3%. That's an easy 6% a year, on top of inflation.

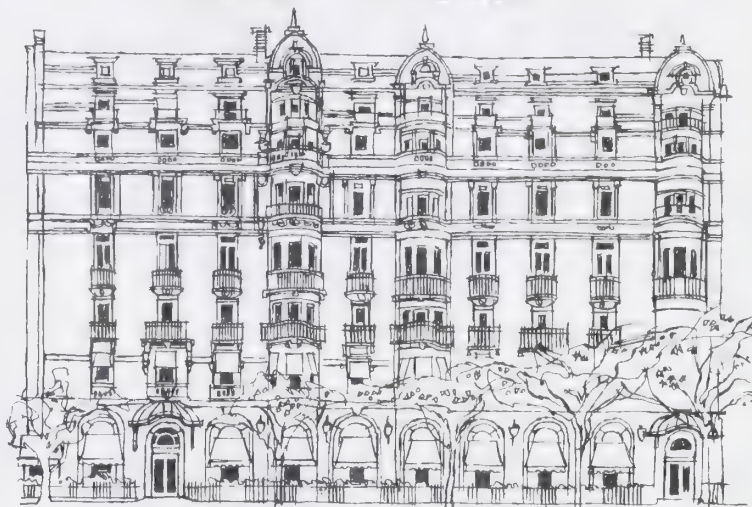
Hollingsworth is also pushing marketing wrinkles, such as "pre-need" funerals. Pre-needs differ from burial insurance in that the buyer locks in today's price—\$1,600 on average—on services to be performed in the future. The proceeds go into a trust fund, but SCI pockets the earnings. The aftertax yield of 9% added \$2 million last year to SCI's net income, or 32 cents a share after overhead. Hollingsworth expects to sell another \$40 million in pre-needs this year.

Shouldn't conservative accounting put most of that 9% yield back into the reserve for deferred funeral costs, instead of booking it to current income? Hollingsworth isn't worried that costs will skyrocket: Casket prices, the highest variable cost of a funeral, have been growing only 5% a year. Besides, most of the cost of funerals is overhead, to be incurred anyway, whether for 50 funerals a year or 500.

For his somber facade, Ben Hollingsworth appears to be quite a swinger. But give him this much: Instead of being content with a sure thing, he goes out and finds ways to make it surer. ■

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Lowe's was a high-flying retailer during the Seventies housing boom. Now the company is remodeling its strategy.

How much Sheetrock, ma'am?

By Carol E. Curtis

IN THE GO-GO housing market of the 1970s, Lowe's Cos., a North Carolina-based building materials retailer, nailed down a surefire success strategy. Its stores, mostly in small southern towns where there was little competition, supplied contractors with a full line of lumber, hardware and building materials. A lean organization let Lowe's squeeze out more sales and income per employee than its big-city competitors. Revenues grew from \$170 million in 1971 to over \$900 million by 1979, with net income that year at a record \$25 million. Lowe's stock, split six times since 1969, traded at the equivalent of \$32 per share in its boom days.

Then hard times came to housing. In 1980, when housing starts slid to 1.3 million, Lowe's net income fell 24%. The stock dropped to below \$9. "Our strategy was polished in a 2-million-housing-start environment," says Chairman Robert Strickland. "When housing starts fell, we were the first to admit we didn't know everything."

Strickland's explanation isn't by way of making excuses. The 51-year-old Harvard M.B.A., who came to Lowe's in 1957 straight out of business school, has been in retailing long enough to know that survivors must roll with the punches. "Sears didn't perceive K mart mopping up their market share," he says. "K mart failed to look back at Wal-Mart and Caldor. You have to look back and see who's gaining on you."

When Strickland looked back, he saw that do-it-yourself retailers who were selling only to consumers—companies like Missouri-based Payless Cashways and Maryland-based Hechinger—were posting strong sales gains even when housing was in trou-

ble. So he called in a management consulting firm and mounted an ambitious plan to move away from dependence on builder business.

That was in 1979, and since then Strickland has recast half of Lowe's 229 stores as consumer-oriented "home design centers." His new store plan—dubbed R.S.V.P. (for Retail Sales Volume and Profit)—is modeled



Lowe's Chairman Robert Strickland
The action is on the women's side.

on a supermarket. Stores have a U-shaped traffic pattern, which guides the buyer from perishable produce, which for Lowe's is seasonal supplies like lawnmowers, to the high-margin meat section—the Lowe's equivalent of interior decorating supplies like rugs and wallpaper. At the end of the curve is hardware, analogous to grocery staples like dairy products. Cus-

tomers enter on the side of the store geared to women, which displays high-profit decorating items, then progress to tools on the men's side.

It is no accident that Strickland is making a strong pitch to women. About half of all do-it-yourselfers are female, so getting them to shop at Lowe's is a key to more business. To make stores more appealing, lighting is softer and less direct, and displays give shoppers ideas for complete room designs. "Women now control the destiny of the products we sell," says Strickland, a big change from the days when Lowe's main customer was a local builder in a pickup truck.

The strategy appears to be working. Though Lowe's 1981 earnings were off 29% from their 1979 peak, there was a dramatic turnaround this year, when earnings jumped 44% in the first quarter. Sales to consumers rose 10% last year, and this year they are up 19%. For the first time ever, Lowe's now gets less than half of its business from builders.

The company is also gaining market share in the depressed builder business. Last year, for example, housing starts declined by 16%, but Lowe's sales to builders fell only 8%. This year, with housing starts off 35%, Lowe's has held its builder business to a modest 4% drop. "They have become a more effective competitor," says Morris Mark, a vice president at Goldman, Sachs & Co.

Lowe's has also been able to avoid the costly overexpansion that led Wickes, a big competitor, to declare bankruptcy in May. Strickland has carefully limited Lowe's marketing area to small towns in the South and Midwest with no more than 120,000 households and a drawing radius of 15 to 20 miles. This Wal-Mart-style concentration has made it easy to control distribution, but still leaves plenty of room for growth. The 19 states in which Lowe's operates can support 250 new stores, says Skip Helm, who follows the industry at Chicago-based William Blair & Co.

Strickland has also avoided leveraging his company with costly, questionable acquisitions like Wickes' \$200 million purchase of Gamble-Skogmo. As a result, Lowe's has an unusually strong balance sheet. Debt is 22% of capital, well below the industry average of 33%. This year, despite the depressed housing market, Strickland expects to top \$1 billion in sales for the first time. With all the growth coming from consumers, the handwriting is on the wall: To move that Sheetrock, put it on the women's side of the store. ■

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The slow pace is understandable. BMW engineers aren't stamping out "cookie-cutter copies." They are building "the quintessential sports sedan" (Car and Driver).

PERFORMANCE SUPERIOR BY SECONDS. AND YEARS.

The 320i also excels where performance is measured not with stop-watches but calendars.

It is covered not only by a 3-year/36,000-mile limited warranty, but a 6-year limited warranty against rust perforation†

And over the past 3 years, the average 320i built during that time easily outdistanced its rivals in resale value, retaining an astonishing 96.9% of its original price**

If neither the short- nor long-term prospects of your car look this promising, your BMW dealer can help on both counts. We invite you to visit him for a test drive.



THE ULTIMATE DRIVING MACHINE.

BMW MINICH GERMANY

*Fuel efficiency figures are for comparison only. Your actual mileage may vary, depending on speed, weather and trip length; actual highway mileage will most likely be lower. **See your BMW dealer for complete details. †Average retail selling price based on January 1982 NADA Used-Car Guide. Your selling price may vary, depending on the condition of your car and whether you sell it privately or to a dealer. © 1982 BMW of North America, Inc. The BMW trademark and logo are registered trademarks of Bayerische Motoren Werke, A.G.



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James D. Lindner
Vice President, Marketing
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It's bear markets that really test a money manager's mettle, for consistency is the real secret to investment performance.

Better three yards and a cloud of dust

By Richard Phalon

ANYONE IN SEARCH of a survivor's guide to this tricky, frustrating bear market could do worse than take a leaf from the account books of money managers like James Fullerton.

Not that Fullerton's Los Angeles-based AMCAP Fund has been cranking out big capital gains for shareholders this year. What the AMCAP chairman has succeeded in doing, though, like other fund managers on *FORBES'* honor roll (see box), is to keep assets intact to fight another day by losing a lot less than the market as a whole. "We've tried with, I think, reasonably good success," says Fullerton, "to give shareholders downside protection."

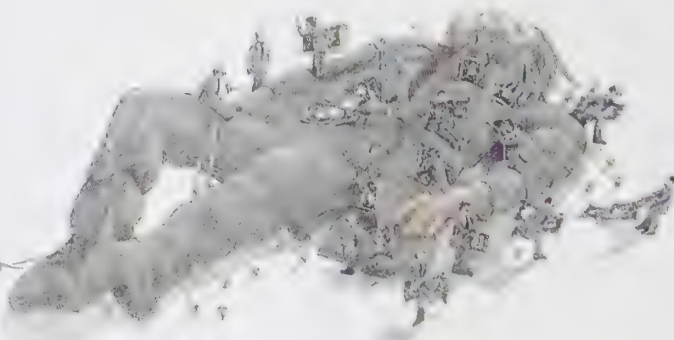
Right now, in a period when asset values at such old-line stock fund groups as T. Rowe Price are down 20% or more, that represents real achievement. What's more, Fullerton and most of the other managers on the *FORBES* honor roll have shown consistent talent on the downside by outperforming every bear market since January 1973.

To use a football analogy, better Woody Hayes with three yards and a cloud of dust than breakaway plays that never jell. The accompanying box illustrates how important a good defensive posture is in investing. It's the principle behind *FORBES'* consistency ratings on the pages that follow.

What's the secret of consistent performance? The difference between a place of honor and consignment to the also-rans on *FORBES'* list is an intangi-

ble—the kind of sixth sense that makes money managers worthy of their hire. AMCAP, for example, started moving into cash out of such high-tech items as Tymshare over a year ago.

Smiling a bit beneath the luxuriance of his hussar's moustache, Fullerton thinks AMCAP might have started getting into the cash that at one point climbed as high as 40% of assets "a little too soon. Of course,"



he adds, "worse things can happen to you than getting cautious too soon." Caution, in the case of AMCAP, also included a major shift of its larger holdings out of cyclical stuff like chemicals into medical and health care stocks that Fullerton regards as "fairly recession-proof."

Thus, among the fund's biggest positions now are Searle & Co., American Hospital Supply, American Home Products, Bausch & Lomb and Medtronic. As Fullerton's sidekick, Howard B. Schow, president of AMCAP, puts it: "If a man needs a pacemaker, is he going to say, 'Gee, I can't afford this right now because the economy's off'? Of course not." There has also been a shift out of volatile small-cap-

italization companies that worked so well on the upside into less-mercurial, big-capitalization issues like IBM.

Fullerton concedes the presence of IBM on his buy list is "somewhat unusual," but insists it does not reflect a change in AMCAP's investment style. "The big-cap stocks have been beaten down so badly," he says, "that they represent real value. We're value investors. We've always been value investors."

Consistent performance requires consistency of purpose. Money managers who perform well over the long run almost always avoid fads and stick with an underlying philosophy.

"Changing style is asking for trouble," says Michael Price, vice president of the Mutual Shares Corp. "When times are tough, you have to keep right on doing what you do best."

One of the things Mutual Shares has traditionally

done best is railroad reorganization bonds (see *FORBES*, Mar. 29).

Along with a sizable buildup in very short commercial paper—one to two weeks—Mutual Shares has stepped up the level of its play in near-term rail workouts like the Erie Lackawanna 3½s of 2000. When that reorganization is finally cleaned up under court order by the end of this year, the bondholders will get paid off at a touch above 134 on securities that are currently trading at around 123. "If you do the arithmetic," says Michael Price, "it works out at a 20% annual rate—a lot better than T bills and almost no risk. It helps to pay the overhead while we wait for the turn in stocks."

A willingness to play the waiting game is central to learning how to live with a bear market. "Typically, our strategy will be to wait until the decline is over, get a good environment and then employ the money," says Thomas Bailey, president of the Janus Fund. Waiting, of course, carries its own terrors for money men who, by definition, are activists.

"One of the things I've been concentrating on," notes David MacCallan, chairman of the closed-end mutual fund Petroleum & Resources Corp., "is whether we have been sitting on our hands too much during the first half of this year." There are real temptations in a bear market, says MacCallan, to get impatient and swing for the fences when you know very well it's time to work the pitcher and make every hit count. The 20% cash position he is currently carrying in the fund doesn't really leave MacCallan all that happy, but "I'm prepared to sit it out for a year," he says. "If we tried

to do anything else, we'd probably make a mistake."

These are particularly good times for sitting things out. There's no pain in cash equivalent when the yields are as high as they are today. But with short-term interest rates softening, a few venturesome managers are creeping a bit further out on the maturity spectrum.

Richard T. Cunniff, president of the Sequoia Fund, is one. A full 39% of Sequoia's assets are tucked away in U.S. paper at the moment. Some 14% of the assets are in Ginnie Maes—obligations of the Government National Mortgage Association carrying stated maturities stretching out to the year 2011.

In fact, the average life of the pooled mortgages Sequoia holds is probably around 12 years. For a fund that has made its bones on the Ben Graham bedrock of buying solid earning stocks at low multiples, bonds may seem quite a switch. The acid test,

though, is value, and Rick Cunniff argues that the potential return on stocks these days has to be measured against the 14% or so that can be had on long governments. Sequoia itself, after all, with a very good record in equities, has been able to average no better than 15.7% compounded over the 11-plus years of its life. Q.E.D. Is the marginal return worth the risk of staying entirely with the stocks?

Not the way Cunniff sees things at the moment. A 14% government, he argues, is the equivalent of a 7-times-earnings yield on a stock, and further, an equivalent of "impeccable quality." Conversely, Cunniff continues, it is getting harder and harder to find quality stocks selling for less than 7 times earnings. That doesn't mean Sequoia is out of the market for equities. It has been adding cautiously to blue chip holdings like R.J. Reynolds, but like everybody else who has got away unclawed in this bear market, Sequoia is playing a waiting game. ■

The honor roll—funds for all seasons

Most investors overlook some simple arithmetic when judging investment performance. Suppose Fund A produces 25% gains for three years running. Each \$1,000 of original investment is now worth \$1,953. Then, in the fourth year it sustains a 50% loss—not impossible in years like 1974. Fund B manages only 15% gains in the three good years with each \$1,000 growing only to \$1,521—a gain only about half as great. But it holds its portfolio to a 15% loss in the fourth year.

Question: Who produced the better result? The 25% gainer? Or the 15% gainer?

Answer: the 15% gainer. At the end of the four-year period, each \$1,000 under his management would be worth \$1,293. His more spectacular rival would have ended up with just \$977 for every \$1,000.

There's an important principle involved: *Consistency* of performance is far more important than spectacular upside performance. The stock market is a great leveler. It has a way of cutting the spectacular performers down, from time to time, by inflicting painful losses on them—regression to the mean.

That's why consistency—an ability to do well in bear markets as well as in bull markets—is so important.

The 19 funds on this year's honor roll are cases in point. Each fund had to achieve an average return of 14% or better from May 26, 1970 through

June 1982. Performance was also in the top 25% during either up or down markets and no worse than the top 50% for both. (Funds not marketed during the entire period or with less than \$2 million in assets were excluded.)

Name	Type	—Market ratings— UPDOWN		Annual return	Assets (millions)
Diversified stock funds					
AMCAP (4)	load	A	B	14.3%	\$394.0
American General Comstock (2)	load	B	A	15.4	153.4
American General Pace (1)	load	A +	A	17.0	129.7
Charter (5)	load	A +	B	18.0	44.7
Fidelity Magellan (1)	load	A +	B	19.0	146.8
Janus (1)	no load	A	A	18.4	44.9
Mutual Shares (7)	no load	B	B	18.6	130.0
Nicholas (1)	no load	A	B	15.4	56.1
Petroleum & Resources (6)	closed end	A +	C	15.2	183.0
Pioneer II (1)	load	B	A	18.5	485.1
Putnam-Voyager (1)	load	A	C	14.7	87.9
St Paul Growth (1)	load	A	B	15.0	36.7
Sigma Venture Shares (1)	load	A +	C	14.0	22.7
Templeton Growth (9)	load	B	B	17.3	508.2
Twentieth Century Growth (1)	no load	A +	C	21.5	261.9
Twentieth Century Select (5)	no load	A +	B	17.9	49.4
Vance, Sanders Special (3)	load	A	C	15.2	86.4
Funds for investing abroad					
ASA Limited (4)	closed end	B	A	17.6%	\$301.9
International Investors (3)	load	A	A	19.0	203.3
Note: Number in parentheses is number of times on honor roll					

Note: Number in parentheses is number of times on honor roll

Is 0.29% too much?

By Howard Rudnitsky
with Laura Rohmann

WORKING ITS WAY THROUGH the federal appeals process in New York is a lawsuit that Merrill Lynch, the country's biggest broker, has reputedly spent \$1 million defending. It could be money well spent: At stake is ML's management fee structure on its \$43 billion worth of money market funds—funds that will probably bring it some \$100 million in fees this year.

Merrill's competitors in the \$210 billion money market industry are watching with interest, too. They include other large brokerage houses with money market funds like Hutton, Dean Witter and Paine Webber, as well as other nonbroker fund groups like Dreyfus, Federated, Fidelity, and Reserve Fund. Most have been the targets of lawsuits over the size of their management fees. In the past, the usual practice was to settle out of court. When the fund adviser had a fixed percentage fee, he would promise to put in a sliding scale, decreasing as the fund's size increased, and refund some money. But Merrill was sued even with a sliding fee scale in place. Unlike the others, Merrill took the case to court.

And so far, ML seems to be win-

ning. Late last year, District Judge Milton Pollack upheld ML's 0.288% fee. In a 66-page opinion, the judge said ML was not abusing its fiduciary duty, and the fee was set in a competitive environment. In any event, the judge said money market management fees don't have to be cost-supported if they are found reasonable by the fund's independent directors.

Reasonable? A fee of less than one-third of 1%? That hardly seems out of line for Wall Street. But that is not the point, contends plaintiff Irving Gartenberg, a shareholder in ML's Ready Assets Trust who is, not surprisingly, represented by a law firm, Pomerantz Levy Haudek & Block of New York, which is well known for its stockholder derivative suits. Gartenberg, among other points, contended that money market funds are not like stock portfolios. They're not that much different to run, after all, than bank's savings accounts.

Big money is involved here. If money fund assets throughout the year continue to run at \$200 billion or more, total management fees could exceed \$700 million. With one-seventh of the industry's fees, ML felt the fight was worth it.

Gartenberg and other plaintiffs argue that the ML advisers were generating costs unnecessarily by opening

and servicing fund accounts themselves that could have been handled more expeditiously by a bank. They also claim ML has a fiduciary responsibility to keep fees as low as possible. Besides, they claim, money funds bring in other—more profitable—business. The federal court ruling has been appealed to the Second Circuit in New York, where a decision could come as early as this fall. But there's already fallout: Last June, the same law firm, Pomerantz Levy Haudek & Block, settled another suit against Shearson's Daily Dividend Fund, with Shearson making no concessions on its fee schedule, though it will pay the fund \$500,000 a year for ten years. That's peanuts.

How much does it cost, really, for a fund manager to take in money, put it in short-term CDs or government and commercial paper and manage it? Not a vast amount if you are efficient.

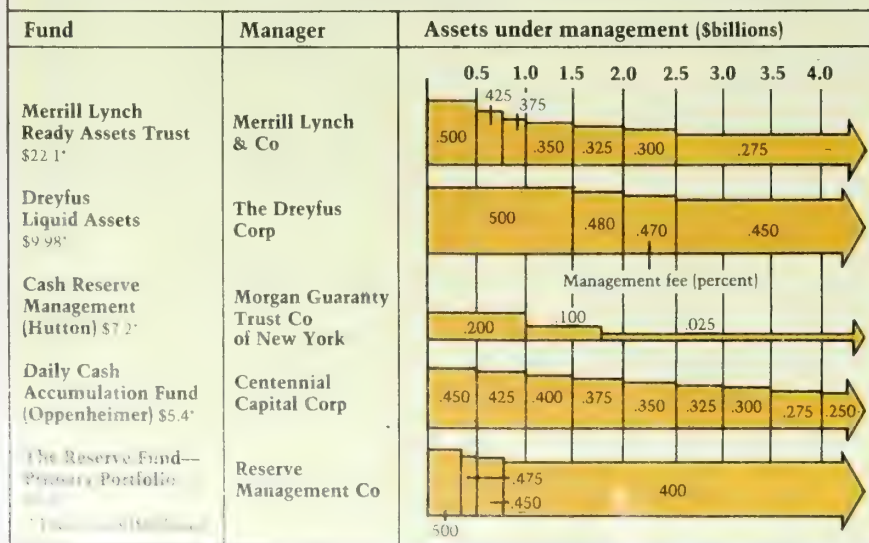
Nonbroker fund groups like Reserve, Dreyfus and Federated appear to be more profitable than the brokers' because they don't have to support a costly branch-office system and high-priced account executives. The brokers say there's another reason. "They make money because they charge everything to the fund," says Thomas Lynch, president of E.F. Hutton's Cash Reserve Management, "whereas we absorb these expenses in our fee." But how different can their costs be if their net yields are alike?

The brokerage firms have always figured that money funds would be a great way to lure new clients and keep existing ones. Customers who came in via the money funds could later be switched to more profitable commission products like stocks, real estate and futures trading.

That's happening, but slowly. The broker-managed funds are still saddled with many customers who like money funds just fine, thank you, and don't feel like switching. That doesn't put much bread on the salesmen's tables. And that's one reason ML and the brokers would like to win this case. Not only would it get rid of those bothersome lawsuits, but it would also give them more pricing flexibility—to raise charges as well as lower them. Most investors don't seem to be complaining, they say, as long as a fund is yielding 12% to 13% net. ■

Sliding around

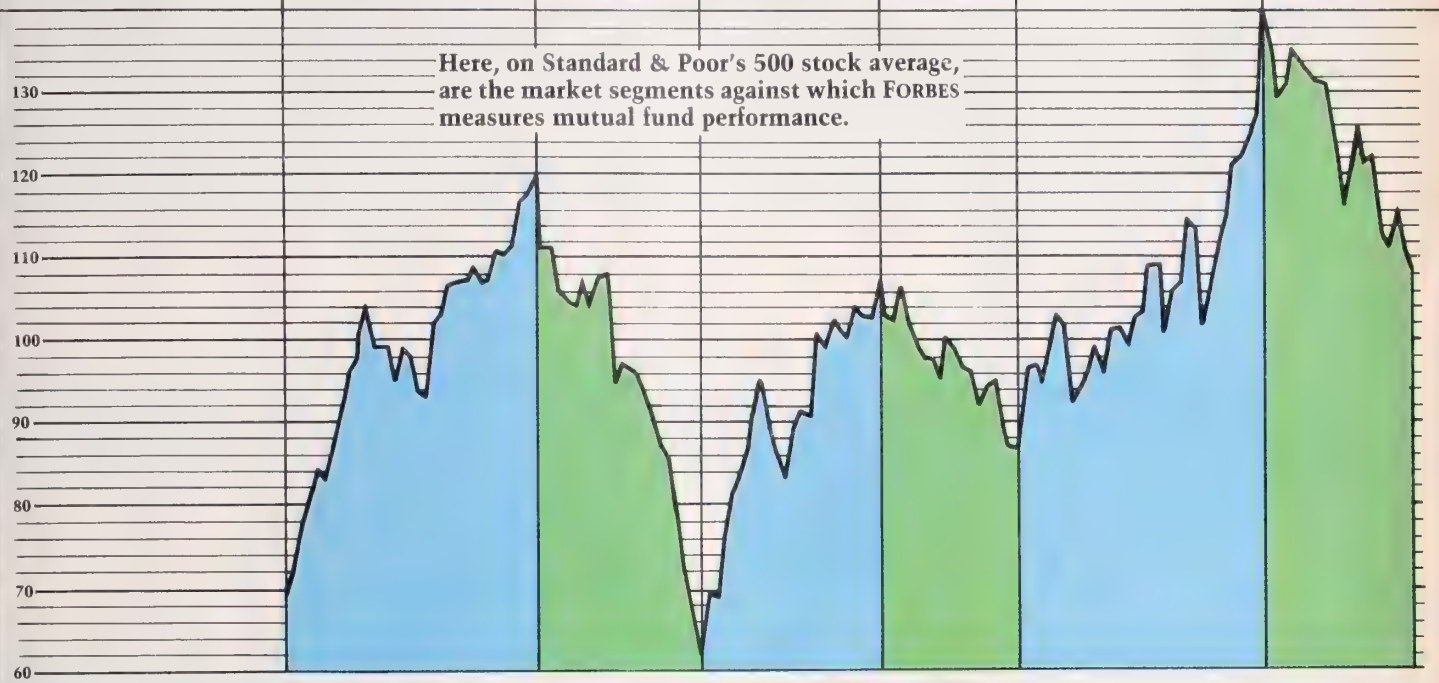
The five money funds below have widely varying sliding-scale management fees. Beware. A low fee could be offset by higher fund operating costs.





Rising markets	5/26/70 to 1/11/73		10/3/74 to 9/21/76		3/6/78 to 11/28/80	
Declining markets		1/11/73 to 10/3/74		9/21/76 to 3/6/78		11/28/81 to 6/30/82
Percent change	+74%	-48%	+73%	-19%	+62%	-22%

Here, on Standard & Poor's 500 stock average, are the market segments against which FORBES measures mutual fund performance.



How FORBES rates the funds

What the ratings mean

FORBES rates mutual funds on the basis of their performance in each of three rising markets and three declining markets beginning with the market low of May 26, 1970. To get a high score, a fund must perform consistently well in all three up or down periods.

Adjustments in the calculations prevent an exceptional performance (good or bad) in any one period from having an undue influence on a fund's average performance—calculated separately for up markets and down markets. For up markets, the 12.5% of all funds with the highest adjusted averages are initially awarded an A+ rating, the next 12.5% get an A, the next 25% B, the following 25% C and the lowest quartile D. For down markets, the ratings range from A to F, with an occasional A+ awarded for outstanding performance. In both up-market and down-market ratings, downward adjustments are made to the initial grades where performance in the most recent of the three periods has been substantially below the average of all three. Thus the breakdown of final grades is skewed somewhat from the distribution described.

Explanation of column headings

The performance ratings are based on the following up markets and down markets:

Up markets:	Down markets:
May 26, 1970 to Jan. 11, 1973	Jan. 11, 1973 to Oct. 3, 1974
Oct. 3, 1974 to Sept. 21, 1976	Sept. 21, 1976 to Mar. 6, 1978
Mar. 6, 1978 to Nov. 28, 1980	Nov. 28, 1980 to June 30, 1982

In the Investment Results section, the average annual

total return covers the period from May 26, 1970 to June 30, 1982; the latest 12 months is the period from June 30, 1981 to June 30, 1982.

In determining performance ratings and the latest 12 months' return from capital growth, capital gains distributions have been reinvested but income dividends have not. The average annual total return for 1970-82 reflects reinvestment of *all* distributions; it is expressed as a *compound* average annual rate. All results are based on initial investments at net asset value and do not allow for sales charges. Returns reported for closed-end investment companies may differ from those actually experienced by investors because such funds are not purchased (or sold) at net asset value but at a market price that may represent a premium over or discount from net asset value. The premium or discount as of June 30, 1982 is reported separately.

Return from income dividends is based on the June 30, 1982 net asset value and the income payout for the preceding 12 months. For closed-end investment companies, market price is used instead of net asset value.

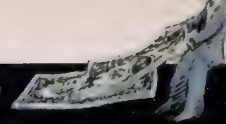
Annual expenses include management fees and operating expenses as a percentage of average net assets.

FORBES fund composites

The FORBES stock fund composite, balanced fund composite and bond and preferred stock fund composite are the (unweighted) averages of *all* stock funds, balanced funds and bond and preferred stock funds, respectively.

Within the body of the table, the composites are further broken down so that the reader can compare not only the major categories of funds but also the smaller groups (load, no-load, closed-end) that make up those categories.

1982 Fund Ratings



Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1970-82	Latest 12 months return from capital growth	Latest 12 months return from income dividends	6/30/82 (millions)	% change '82 vs. '81		
		Standard & Poor's 500 stock average	8.4%	-16.5%	6.2%				
		FORBES stock fund composite	9.6%	-15.5%	4.6%				
		FORBES balanced fund composite	8.1%	-9.1%	9.7%				
		FORBES bond and preferred stock fund composite	6.3%	-5.1%	13.9%				
Stock funds (load)			Group averages						
			9.6%	-13.7%	5.0%				
D	C	Affiliated Fund	10.7%	-15.7%	7.9%	\$1,430.6	-17.6%	7.25%	\$0.34
A	B	AMCAP Fund	14.3	-6.9	5.9	394.0	55.1	8.50	0.82
●C	C	American Birthright Trust	—	-9.6	none	114.3	11.9	8.50	1.34
B	A	American General Comstock Fund	15.4	-9.8	6.9	153.4	-14.5	8.50	0.87
A	F	American General Enterprise Fund	10.3	18.0	1.9	445.9	-26.3	8.50	0.77
A+	A	American General Pace Fund	17.0	-0.9	2.9	129.7	117.6	8.50	0.92
●B	H	American General Venture Fund	—	0.1	4.1	82.3	36.3	8.50	0.98
C	A	American Growth Fund	12.8	-10.0	5.0	30.1	6.7	8.50	1.49
C	B	American Insurance & Industrial Fund	12.1	-9.6	4.4	12.1	-19.9	8.50	1.00
D	C	American Leaders Fund	5.8	-11.3	8.3	38.7	-19.5	6.50	1.41
D	A	American Mutual Fund	12.9	-8.2	8.4	478.4	-5.8	8.50	0.53
C	B	American National Growth Fund	12.4	-13.9	5.2	52.3	-9.4	8.50	0.83
D	D	Axe-Houghton Stock Fund	7.3	-21.4	0.8	100.5	-17.9	8.50	0.86
B	F	BLC Growth Fund	8.7	-23.5	3.7	11.7	-19.9	8.50	1.01
D	B	BLC Income Fund	11.3	-20.0	7.4	13.7	-16.5	8.50	0.98
C	C	Bullock Fund	9.6	-14.2	5.1	112.1	-20.2	8.50	0.79
C	D	The Cardinal Fund	8.2	-12.9	4.9	11.5	-14.8	8.50	0.97
●C	B	Centennial Equity Income Fund ¹	—	-14.4	8.1	41.7	-20.6	8.50	1.14
B	F	Centennial Growth Fund ²	5.9	-28.3	none	17.1	-35.7	8.50	1.50
B	F	CG Fund	8.9	-18.2	3.4	120.4	-20.9	7.50	0.75
A+	B	Charter Fund	18.0	-10.6	6.0	44.7	10.1	8.50	1.20
B	D	Chemical Fund	7.9	-16.3	3.9	890.8	-13.7	8.50	0.57
B	F	Colonial Growth Shares	6.9	-15.8	2.8	51.0	-23.9	8.50	1.22
C	F	Common Stock Fund State Bond & Mortgage Co	5.6	-18.4	5.3	26.9	-20.4	8.50	1.21
D	D	Commonwealth Fund Indenture of Trust Plan A & B	7.3	-6.9	9.3	8.6	-15.7	7.50	0.41
D	C	Commonwealth Fund Indenture of Trust Plan C	8.3	-7.3	8.9	30.7	-13.3	7.50	0.75
D	C	Composite Fund	7.5	-14.5	5.7	22.3	-14.2	7.00	0.89
C	D	Corporate Leaders Tr Fund Certificates, Series "B"	9.1	-15.0	7.3	41.5	-16.3	7.50	0.11
C	D	Country Capital Growth Fund	7.2	-13.6	3.8	39.7	-15.5	7.50	0.84
D	B	Decatur Income Fund	11.5	-10.8	9.5	349.4	-7.2	8.50	0.66
D	C	Delaware Fund	10.5	-8.9	7.2	219.6	-14.2	8.50	0.74
D	C	Delta Trend Fund	6.0	-9.2	4.2	13.7	33.0	8.50	1.40
D	C	Diversified Fund of State Bond and Mtge Co	8.2	-17.5	7.1	6.5	-12.2	8.50	1.00
D	D	Dividend Shares	7.8	-10.7	6.5	217.8	-13.5	8.50	0.84
C	C	The Dreyfus Fund	9.8	-16.2	5.6	1,515.4	-13.5	8.50	0.75
B	C	The Dreyfus Leverage Fund	11.2	-9.5	4.7	286.9	-11.0	8.50	1.00
●B	●C	Eagle Growth Shares	—	-10.1	5.9	4.5	-10.0	8.50	1.34
A	D	Eaton & Howard Funds							
D	F	Growth	8.1	-6.7	3.9	33.2	-9.0	7.25	0.91
B	C	Stock	4.4	-14.2	6.0	57.5	-21.5	7.25	0.71
A	F	Eaton Vance Growth Fund ³	11.2	-17.1	4.1	48.4	-17.8	8.50	0.80
	F	Fairfield Fund	8.5	-24.3	0.7	26.2	-20.1	8.50	1.15
●D	●D	Farm Bureau Growth Fund	—	-13.6	7.2	35.1	-10.2	8.50	0.84
●B	A	Fidelity Destiny Fund	—	-12.9	5.0	245.8	5.5	†	0.80
A+	B	Fidelity Magellan Fund	19.0	-5.1	1.7	146.8	40.6	2.00	1.34
C	D	First Investors Discovery Fund	4.6	-20.4	1.1	4.9	-18.3	8.50	1.47
B	F	First Investors Fund for Growth	7.5	-22.4	2.9	50.9	-27.2	8.50	0.99
D	F	First Investors Natural Resources Fund	3.1	-32.9	6.2	8.1	-27.0	8.50	1.28

●Fund rated for two periods only; maximum allowable rating A. †Fund not in operation for full period. ‡Available only through contractual plan. ¹Formerly Hamilton Income Fund. ²Formerly Hamilton Growth Fund. ³Formerly Vance, Sanders Common Stock Fund.

Templeton Growth Fund's Record

Illustration of an assumed investment of \$10,000

with income dividends reinvested and capital gains distributions accepted in shares (Stated in United States dollars)

Templeton Growth Fund, Ltd. was incorporated in Canada on September 1, 1954 and commenced operations November 29, 1954. Dividends from investment income were paid commencing in 1964 and distributions of capital gains were paid commencing in 1972. Prior to that time net income and realized capital gains were retained by the Fund. Income dividends and capital gains distributions are shown in the chart as reinvested at net asset value in accordance with the reinvestment policy described in the current prospectus.

Initial net asset value is the amount received by the Fund after deducting the maximum sales commission of 8½%. The actual sales commission on an investment of \$10,000 is 7¾% as described in the prospectus. No adjustment has been made for any income taxes payable by shareholders. The total amount of capital gains distributions accepted in shares was \$44,608; the total amount of dividends reinvested was \$29,460.

- Value of shares acquired through reinvestment of dividends from income (\$60,076)
- Value of shares initially acquired (\$188,856) plus shares accepted as capital gains distributions (\$77,266)
- Annual cost of living

Cost of investment
November 29,
1954
\$10,000

Initial net
asset value
\$9,150

Assuming
annual cost of
living
(November,
1954) to be
\$10,000

Total value
of investment
April 30, 1982
\$326,198

Cost of living
April 30, 1982
\$35,506

Source: Consumer
Price Index

Years ended 4/30/1955 1960 1965 1970 1975 1980 1982

This chart covers the period from November 29, 1954 (inception) to April 30, 1982. The Fund's results shown should not be considered as a representation of the dividend income or capital gain or loss which may be realized from an investment made in the Fund today. The Cost of Living as set out in the chart represents the annual change in the Consumer Price Index, applied to an initial value in November 1954 of \$10,000. (The Consumer Price Index is prepared by the U.S. Bureau of Labor Statistics based on prevailing economic factors.) This presentation has been made so as to compare the increase in value of a \$10,000 investment in Templeton Growth Fund, Ltd., with the increase in the cost of living over the same time period.

Send no money. For a prospectus and more complete information about Templeton Growth Fund, including charges and expenses, contact your investment dealer or return this coupon to:
Securities Fund Investors, Inc.
PO Box 3942 St. Petersburg FL 33731

FO-8/82

Name _____

Address _____

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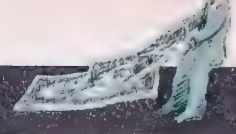
State _____

Zip _____

1982 Fund Ratings

Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1970-82	Latest 12 months return from capital growth	return from income dividends	6/30/82 (millions)	% change '82 vs. '81		
		Standard & Poor's 500 stock average	8.4%	-16.5%	6.2%				
		FORBES stock fund composite	9.6%	-15.5%	4.6%				
		FORBES balanced fund composite	8.1%	-9.1%	9.7%				
		FORBES bond and preferred stock fund composite	6.3%	-5.1%	13.9%				
Stock funds (load)			Group averages						
			9.6%	-13.7%	5.0%				
D	A	First Investors Option Fund	6.9%	-3.2%	6.3%	\$116.6	42.5%	7.25%	\$0.98
D	F	Founders Mutual Fund	6.9	-20.2	6.2	101.6	-23.5	4.00	0.40
		Franklin Custodian Funds							
A	F	Dynatech Series	8.3	-8.4	2.2	10.4	-11.9	7.25	1.08
C	D	Growth Series	6.2	-10.0	1.4	7.1	-17.4	7.25	1.05
D	B	Utilities Series	6.0	7.1	9.8	12.8	24.3	7.25	1.10
B	F	Franklin Option Fund	6.8	-9.2	2.8	4.4	-2.2	7.25	1.26
D	D	Fund of America	7.2	-10.6	8.8	72.3	-13.3	8.50	0.96
A +	C	Fund of the Southwest	13.6	-17.3	2.5	4.4	2.3	7.50	1.00
D	D	Fundamental Investors	6.6	-13.4	6.8	292.3	-21.5	8.50	0.64
B	A	Growth Fund of America	11.6	-8.9	4.9	172.7	13.3	8.50	0.76
•C	•C	The Guardian Park Avenue Fund	—	-15.2	9.4	30.7	-24.6	8.50	0.69
D	F	Hamilton Funds	6.6	-16.7	4.9	196.3	-23.3	8.50	0.98
A	F	John Hancock Growth Fund	4.7	-21.5	1.9	25.8	-25.2	8.00	1.02
•B	C	IDS Growth Fund	—	-19.1	2.6	288.0	-14.5	†	0.68
A +	F	IDS New Dimensions Fund	11.7	-14.4	6.9	204.2	-14.1	8.00	0.69
B	F	IDS Progressive Fund	8.3	-2.8	3.6	94.7	-13.9	8.00	0.81
•D	A	Income Fund of America	—	-6.1	8.9	221.2	-6.3	8.50	0.71
C	C	The Investment Co of America	11.1	-10.4	6.6	1,537.3	-10.3	8.50	0.46
C	F	Investment Trust of Boston	7.8	-15.1	3.8	47.1	-23.4	7.25	0.90
A	D	Investors Research Fund	11.4	-9.4	2.9	16.6	-4.1	8.50	0.93
C	F	Investors Stock Fund	8.0	-9.9	7.4	1,221.9	-15.9	8.00	0.60
C	F	Investors Variable Payment Fund	7.1	-17.8	6.4	302.2	-23.4	8.00	0.63
D	B	ISI Growth Fund	9.1	-3.1	9.3	13.3	-4.3	8.50	1.37
D	B	ISI Income Fund	7.7	-0.6	11.8	8.3	-3.5	8.50	1.54
•D	B	ISI Trust Fund	—	-3.1	12.0	102.8	-2.6	8.50	0.96
•D	C	JP Growth Fund	—	-3.8	7.2	21.6	-8.1	8.00	0.75
A	D	Kemper Growth Fund	11.4	-13.6	2.7	136.9	-16.2	8.50	0.69
A +	C	Kemper Summit Fund	13.2	-14.3	2.2	49.0	-29.7	8.50	0.64
		Keystone Custodian Funds							
C	F	K-2	6.5	-15.5	2.2	102.2	-24.1	8.50	0.70
C	F	S-1	5.8	-13.8	5.2	51.6	-20.5	8.50	0.67
B	F	S-3	8.9	-18.3	3.5	90.4	-24.0	8.50	0.66
A +	F	S-4	7.8	-29.8	0.6	351.9	-31.2	8.50	0.63
C	D	MagnaCap Fund	6.2	-13.5	5.0	5.7	-5.0	7.25	1.97
•A	B	Massachusetts Capital Development Fund	—	-12.8	4.2	177.3	-0.8	7.25	0.61
•B	F	Massachusetts Financial Development Fund	—	-20.4	4.4	122.8	-21.9	7.25	0.77
B	F	Massachusetts Investors Growth Stock Fund	7.9	-13.8	3.7	671.5	-19.1	7.25	0.48
D	D	Massachusetts Investors Trust	6.7	-18.9	6.1	870.6	-25.7	7.25	0.45
•D	•F	Merrill Lynch Capital Fund	—	-11.7	6.8	128.6	6.5	6.50	0.97
D	C	MidAmerica Mutual Fund	7.4	-9.0	6.7	27.6	-19.1	8.50	0.91
D	C	MIF/Nationwide Fund	7.7	-11.6	6.8	182.5	-15.6	7.50	0.70
C	D	MIF/Nationwide Growth Fund	6.6	-7.0	4.1	27.3	-11.1	7.50	0.77
•D	•F	Mutual Benefit Fund	—	-12.1	5.4	19.1	-15.5	†	0.91
D	D	Mutual of Omaha Growth Fund	5.5	-12.8	5.7	13.9	-14.2	8.00	1.46
		National Securities							
C	F	Growth Fund	3.8	-15.3	3.5	75.4	-22.7	7.25	0.72
C	C	Stock Fund	10.1	-10.8	6.8	198.4	-17.3	7.25	0.68

— Funded for two periods only; maximum allowable rating A. *Fund not in operation for full period. †Fund not currently selling new shares.



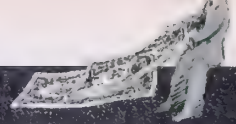
Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1970-82	Latest 12 months return from capital growth	Latest 12 months return from income dividends	6/30/82 (millions)	% change '82 vs. '81		
		Standard & Poor's 500 stock average	8.4%	-16.5%	6.2%				
		FORBES stock fund composite	9.6%	-15.5%	4.6%				
		FORBES balanced fund composite	8.1%	-9.1%	9.7%				
		FORBES bond and preferred stock fund composite	6.3%	-5.1%	13.9%				
Stock funds (load)			Group averages						
			9.6%	-13.7%	5.0%				
D	B	NEL Equity Fund	11.4%	-4.1%	6.3%	\$ 11.2	-5.9%	8.00%	\$1.05
A	C	NEL Growth Fund	12.9	-2.1	2.2	49.1	7.4	8.00	0.84
•C	C	NEL Retirement Equity Fund	—	-1.0	4.2	52.9	-2.6	8.00	0.72
•C	•D	New Perspective Fund	—	-12.1	7.5	409.3	-13.8	8.50	0.78
A	C	New York Venture Fund	12.1	-17.5	5.1	50.7	-22.6	8.50	1.09
D	C	Old Dominion Investors' Trust	9.4	-15.9	8.5	3.1	-18.4	1.00	1.06
A+	F	Oppenheimer A I M Fund	10.3	-23.1	2.5	175.0	-24.9	8.50	1.20
B	F	Oppenheimer Fund	6.4	-29.7	2.7	229.1	-35.0	8.50	1.02
•A	•C	Oppenheimer Special Fund	—	-17.1	1.8	252.7	8.7	8.50	1.00
•A	D	Oppenheimer Time Fund	—	-12.1	2.4	74.0	-16.7	8.50	0.92
C	B	Over-The-Counter Securities Fund	14.5	-13.9	5.1	45.3	-11.7	8.00	1.18
D	B	Paramount Mutual Fund	11.0	0.7	1.4	11.0	8.9	8.50	1.92
A	D	Philadelphia Fund	12.1	-13.3	5.5	92.1	-16.1	8.50	0.85
B	C	Pilgrim Fund	9.0	-25.4	5.1	42.1	-17.1	7.25	1.48
C	C	Pilot Fund	9.5	-15.1	4.7	49.9	-22.0	8.00	1.13
C	D	Pioneer Fund	12.1	-22.0	6.0	887.8	-16.2	8.50	0.66
B	A	Pioneer II	18.5	-14.6	4.8	485.1	14.8	8.50	0.72
B	F	Progress Fund	7.7	-17.2	2.6	4.3	-20.4	8.50	1.22
Putnam Funds									
C	C	Growth	10.5	-9.5	6.3	593.1	-12.7	8.50	0.53
B	D	Investors	10.9	-15.4	2.6	641.7	-3.9	8.50	0.52
A	C	Vista	12.2	-12.9	5.4	65.9	-13.3	8.50	0.90
A	C	Voyager	14.7	-17.8	2.1	87.9	-4.5	8.50	1.07
A	A	Research Capital Fund	8.6	-31.6	15.2	38.2	-26.7	7.25	0.85
C	D	Research Equity Fund	6.8	-12.7	3.9	46.8	-32.3	7.25	0.96
B	C	St Paul Capital Fund	11.8	-4.2	6.8	45.1	-7.6	6.00	0.96
A	B	St Paul Growth Fund	15.0	-5.9	5.6	36.7	1.1	6.00	0.99
Security Funds									
A	D	Equity	10.8	-22.0	5.8	170.9	6.9	8.50	0.68
D	C	Investment	11.9	-12.6	8.5	96.7	-8.5	8.50	0.71
A+	F	Ultra	15.5	-17.3	0.2	45.6	-4.8	8.50	1.13
A+	D	Seligman Capital Fund ⁴	12.9	-12.5	1.3	43.7	-14.0	7.25	0.89
C	D	Seligman Common Stock Fund ⁵	10.3	-14.3	6.5	292.2	-22.5	7.25	0.55
B	F	Seligman Growth Fund ⁶	7.7	-18.5	2.9	520.1	-29.0	7.25	0.52
D	B	Sentinel Common Stock Fund	10.6	-6.6	7.5	253.7	-10.8	8.50	0.88
C	C	Sentinel Growth Fund	9.0	-13.7	4.5	24.3	-11.3	8.50	0.95
B	D	Sentry Fund	9.7	-22.5	3.5	21.9	-19.2	8.00	0.76
B	D	The Shearson Appreciation Fund	8.2	-8.5	3.9	14.2	6.8	5.00	1.60
•C	D	Shearson New Directions Fund	—	-20.0	5.2	4.4	-17.0	5.00	1.60
A	C	Sigma Capital Shares	10.9	-9.9	2.5	22.0	-12.0	8.50	1.33
C	D	Sigma Investment Shares	9.6	-12.0	5.9	42.2	-17.1	8.50	1.13
•B	D	Sigma Special Fund	—	-20.2	2.8	7.5	-21.9	8.50	1.27
A+	C	Sigma Venture Shares	14.0	-19.3	1.8	22.7	-4.6	8.50	1.17
B	D	Smith, Barney Equity Fund	9.9	-15.2	3.4	47.8	-17.7	5.00	1.00
D	A	Smith, Barney Income & Growth Fund	9.5	-10.4	6.7	3.8	-5.0	5.00	2.00
D	C	Sovereign Investors	9.1	-5.5	6.5	8.1	-4.7	5.00	1.00
B	D	State Street Investment Corp	9.4	-27.3	4.3	370.7	-23.8	+	0.50

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1982 Fund Ratings

Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1970-82	Latest 12 months return from capital growth	Latest 12 months return from income dividends	6/30/82 (millions)	% change '82 vs. '81		
		Standard & Poor's 500 stock average	8.4%	-16.5%	6.2%				
		FORBES stock fund composite	9.6%	-15.5%	4.6%				
		FORBES balanced fund composite	8.1%	-9.1%	9.7%				
		FORBES bond and preferred stock fund composite	6.3%	-5.1%	13.9%				
Stock funds (load)			Group averages						
			9.6%	-13.7%	5.0%				
●C	●F	Sun Growth Fund		16.5%	4.5%	\$ 3.0	-73.5%	8.50%	\$0.84
B	F	Surveyor Fund	6.3%	-21.7	2.8	75.5	-26.7	8.50	1.00
A	D	Technology Fund	10.8	-18.5	3.5	449.8	-13.2	8.50	0.54
B	B	Templeton Growth Fund	17.3	-22.5	3.5	508.2	-21.4	8.50	0.78
D	D	Transamerica Capital Fund	7.0	-12.5	5.4	35.6	-14.8	8.00	0.85
B	D	Travelers Equities Fund	10.3	-21.1	7.2	35.3	-16.2	8.50	0.85
C	F	United Accumulative Fund	8.3	-12.3	7.7	336.2	-16.0	8.50	0.60
D	C	United Income Fund	7.1	-13.5	7.8	386.4	-23.1	8.50	0.63
●D	D	United International Growth Fund ⁷	—	-9.8	7.8	54.7	-4.7	8.50	0.86
B	F	United Science & Energy Fund	6.8	-14.4	6.9	140.4	-17.5	8.50	0.67
B	C	United Vanguard Fund	10.1	-5.1	8.1	79.1	25.8	8.50	0.92
A	C	Vance, Sanders Special Fund	15.2	-16.5	4.7	86.4	-14.2	8.50	0.75
D	F	The Wall Street Fund	4.5	-25.3	4.4	5.1	-32.0	+	2.09
D	B	Washington Mutual Investors Fund	11.4	-8.1	6.3	348.7	-10.0	8.50	0.60
Not rated**									
		American National Income Fund	—	-8.1	8.0	19.4	22.8	8.50	0.88
		Chancellor New Decade Growth Fund	—	-19.0	3.7	25.7	3.6	6.75	1.36
		Chancellor Tax-Managed Utility Fund	—	—	—	111.6	—	6.75	1.12
		Colonial Option Growth Trust	—	-11.6	3.2	2.7	125.0	8.50	1.50
		Colonial Option Income Fund	—	-10.5	6.0	226.1	6.2	8.50	0.91
		Colonial Tax-Managed Trust	—	10.5	none	152.0	50.9	8.50	0.96
		Eaton Vance Tax-Managed Trust	—	—	—	230.2	—	8.50	1.12
		Eberstadt Energy-Resources Fund	—	-43.2	2.0	30.6	-44.9	8.50	1.33
		The 44 Wall Street Equity Fund	—	-28.8	none	19.7	-29.6	8.50	1.55
		The Edson Gould Fund	—	-26.4	none	2.8	-36.4	6.50	2.00
		IDS Discovery Fund	—	—	—	84.5	—	8.00	0.84
		InterCapital Dividend Growth Securities	—	-9.7	7.1	14.7	3.5	5.50	1.50
		InterCapital Industry-Valued Securities	—	-14.8	4.7	18.4	12.9	5.50	1.46
		InterCapital Natural Resource Development Sec	—	-34.6	5.4	26.6	-32.0	5.50	1.50
		Kemper Option Income Fund	—	-7.6	5.5	54.7	-21.3	8.50	0.88
		Lord Abnett Developing Growth Fund	—	-16.3	1.0	96.9	15.9	8.50	0.95
		Massachusetts Financial Emerging Growth Trust	—	—	—	2.9	—	7.25	1.50
		Merrill Lynch Basic Value Fund	—	-17.5	7.3	103.0	-8.7	6.50	0.92
		Merrill Lynch Special Value Fund	—	-25.6	4.9	42.1	-24.6	6.50	1.30
		Oppenheimer Directors Fund	—	-24.9	none	45.3	4.4	8.50	1.28
		Oppenheimer Option Income Fund	—	-5.8	5.9	48.4	-15.8	8.50	1.05
		Oppenheimer Target Fund	—	10.9	1.0	12.9	43.3	3.00	0.69
		Phoenix-Chase Growth Fund Series	—	-2.1	6.4	37.3	-5.3	8.50	1.16
		Phoenix-Chase Stock Fund Series	—	-4.2	4.0	24.9	-8.8	8.50	1.33
		Planned Investment Fund	—	-9.1	none	2.6	-18.8	4.00	4.50
		Putnam Health Sciences Trust	—	—	—	250.0	—	+	NA
		Putnam Option Income Trust	—	-9.0	4.7	76.4	-17.0	8.50	0.93
		Strategic Investments Fund	—	-31.1	21.2	21.3	-4.1	8.50	1.27
		Tax-Managed Fund for Utility Shares	—	3.4	none	133.7	-11.0	8.50	1.24
		Templeton Global Fund	—	-6.6	2.3	125.0	77.8	+	NA
		Templeton World Fund	—	-17.1	4.6	656.2	17.3	8.50	0.81

●Fund rated for two periods only; maximum allowable rating A. *Fund not in operation for full period. †Fund not currently selling new shares. **Funds that were not offered to the public or whose assets did not exceed \$2 million before Oct. 3, 1974, or funds that were not rated because of a change in investment policy. †Formerly United Continental Growth Fund. NA: not available.



Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
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Stock funds (no load)			Group averages						
			9.4%	-16.2%	4.1%				
•A	F	Able Associates Fund	—*	-36.9%	none	\$ 3.7	-50.0%	none	\$ 2.30
•A	C	Acorn Fund	—*	-19.5	4.3%	101.6	-12.0	none	0.95
A	F	ADV Fund	9.5%	-7.8	3.7	15.8	-1.9	none	1.78
A +	D	Afuture Fund	16.0	-6.6	3.8	28.3	-8.4	none	0.75
B	D	Alpha Fund	8.2	-12.2	3.3	12.3	-15.8	none	1.60
A	D	American Investors Fund	7.3	-39.7	none	119.8	-43.6	none	1.20
A	D	Armstrong Associates	11.5	-12.9	4.1	7.7	-7.2	none	1.50
C	F	David L Babson Investment Fund	6.6	-17.8	4.6	205.7	-27.0	none	0.59
D	C	Beacon Hill Mutual Fund	6.5	-5.3	0.4	2.0	-9.1	none	3.90
B	F	Boston Company Capital Appreciation Fund	7.4	-23.9	5.9	163.4	-27.6	none	0.77
D	F	Boston Mutual Fund	5.1	-13.5	4.8	3.1	-16.2	none	1.03
D	B	Capamerica Fund	10.1	-12.9	7.8	2.9	-14.7	none	2.07
A	F	Capital Shares	8.5	-24.1	2.6	35.6	-26.0	none	1.46
C	C	Century Shares Trust	9.1	-16.7	6.2	56.7	-21.1	none	0.97
B	C	Columbia Growth Fund	12.1	-11.5	2.6	35.1	-0.3	none	1.22
D	B	Concord Fund	9.6	-16.4	4.2	1.4	-22.2	†	2.18
A	D	The Constellation Growth Fund	9.4	-35.5	none	28.6	-34.0	none	1.20
C	D	de Vegh Mutual Fund	7.6	-16.9	3.7	54.8	-20.0	none	1.09
C	C	Directors Capital	-1.9	-12.9	none	0.9	-25.0	none	12.89
C	D	Dodge & Cox Stock Fund	8.9	-14.3	6.2	17.4	-11.7	none	0.75
D	F	The Drexel Burnham Fund	5.8	-13.4	6.7	37.0	-15.7	none	1.10
•A	C	Dreyfus Number Nine	—*	-30.3	3.9	115.7	-15.2	none	1.10
•A	C	The Dreyfus Third Century Fund	—*	-29.7	6.0	91.1	-20.2	none	1.06
•D	B	Energy & Utility Shares	—*	-5.7	10.2	7.0	-33.3	none	1.99
B	D	Energy Fund	11.2	-21.8	7.4	283.7	-23.1	none	0.82
•A	C	The Evergreen Fund	—*	-18.0	2.3	92.9	-7.3	none	1.25
B	B	Explorer Fund	10.9	-19.4	2.3	45.5	5.1	none	1.01
C	C	Fidelity Contrafund	11.2	-20.1	7.0	56.8	-21.6	none	1.00
D	A	Fidelity Equity-Income Fund	13.4	-8.2	9.1	222.8	17.0	none	0.83
C	C	Fidelity Fund	9.6	-10.6	6.1	432.4	-19.6	none	0.74
D	A	Fidelity Puritan Fund	11.1	-9.0	9.5	594.1	-14.6	none	0.66
B	F	Fidelity Trend Fund	6.3	-17.0	3.1	448.4	-23.4	none	0.87
C	B	Financial Dynamics Fund	9.8	-8.5	4.0	51.7	-11.5	none	0.69
C	C	Financial Industrial Fund	10.9	-6.6	6.0	271.9	-8.9	none	0.64
D	B	Financial Industrial Income Fund	12.4	-6.7	8.8	148.3	-9.9	none	0.66
A +	D	The 44 Wall Street Fund	18.8	-38.7	none	98.7	-27.1	none	1.54
B	D	Founders Growth Fund	9.3	-11.3	3.9	31.2	-20.4	none	1.30
D	A	Founders Income Fund	9.1	-10.2	8.5	5.1	-16.4	none	1.50
A	C	Founders Special Fund	11.4	-23.1	1.7	30.0	-8.5	none	1.39
D	D	Foursquare Fund	6.4	-16.9	5.0	4.9	-23.4	none	2.20
C	C	General Securities	6.9	-19.4	8.8	9.1	-16.5	none	1.50
A	D	Growth Industry Shares	10.3	-12.8	2.0	38.4	-14.7	none	0.90
C	C	Guardian Mutual Fund	12.9	-11.9	6.3	166.6	-8.8	none	0.81
A +	D	Hartwell Growth Fund	11.1	-24.5	none	6.6	-24.1	none	2.60
A +	D	Hartwell Leverage Fund	12.8	-29.2	none	15.1	-32.3	none	1.70
C	F	Herold Fund	4.8	-4.8	none	1.6	-23.8	†	2.08
B	D	Istel Fund	10.0	-25.6	7.6	94.8	-28.2	none	0.96
B	F	Ivest Fund	6.0	-19.2	3.9	120.2	-25.5	none	0.92
C	D	Ivy Fund	7.9	-8.1	6.2	57.0	2.7	none	1.27

•Fund rated for two periods only; maximum allowable rating A. *Fund not in operation for full period. †Fund not currently selling new shares.

1982 Fund Ratings



Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1970-82	Latest 12 months return from capital growth	Latest 12 months return from income dividends	6/30/82 (millions)	% change '82 vs. '81		
Standard & Poor's 500 stock average			8.4%	-16.5%	6.2%				
FORBES stock fund composite			9.6%	-15.5%	4.6%				
FORBES balanced fund composite			8.1%	-9.1%	9.7%				
FORBES bond and preferred stock fund composite			6.3%	-5.1%	13.9%				
Stock funds (no load)			Group averages						
			9.4%	-16.2%	4.1%				
A	A	Janus Fund	18.4%	-9.7%	2.0%	\$ 44.9	16.9%	none	\$1.43
A	D	Lexington Growth Fund	10.5	-31.1	3.1	13.1	-31.1	none	1.43
C	D	Lexington Research Fund	8.9	-18.0	4.8	76.6	-20.1	none	1.04
B	C	Loomis-Sayles Capital Development Fund	12.6	-2.6	2.7	67.1	-5.1	none	0.82
C	D	Mairs & Power Growth Fund	8.7	-9.0	3.8	12.6	-11.9	none	0.94
C	F	Manhattan Fund	1.3	-11.6	3.5	51.4	-17.6	none	1.40
C	D	Horace Mann Fund	7.4	-21.2	2.2	50.6	-27.8	none	0.85
A	D	Mathers Fund	12.7	-26.4	3.9	159.5	-28.7	none	0.59
B	D	W L Morgan Growth Fund	11.1	-14.9	3.4	209.1	-16.8	none	0.90
B	B	Mutual Shares	18.6	-10.1	5.2	130.0	-2.4	none	0.75
B	A	Naess & Thomas Special Fund	13.1	-19.6	0.3	16.5	1.9	none	1.52
C	C	National Aviation & Technology	9.7	-22.9	4.7	73.1	-28.8	none	1.17
B	F	National Industries Fund	8.6	-18.4	4.2	25.5	-18.3	none	1.66
C	F	Neuwirth Fund	5.9	-18.9	0.8	15.0	-3.2	none	1.87
B	D	Newton Growth Fund	7.4	-12.7	2.7	15.6	-11.9	none	1.20
A	B	Nicholas Fund	15.4	-14.6	4.0	56.1	-11.5	none	1.03
•D	C	North Star Stock Fund	—	-10.8	5.8	17.1	4.3	none	0.80
A	D	Omega Fund	10.6	-31.4	none	23.5	-35.6	none	1.39
D	C	The One Hundred & One Fund	6.1	-22.0	6.2	.8	-27.3	none	2.00
D	D	The One Hundred Fund	2.8	-22.3	2.3	9.4	-28.8	none	1.63
B	D	The One William Street Fund	9.9	-11.6	5.4	252.9	-16.5	none	0.58
•C	•B	Partners Fund	—	-2.2	7.3	74.4	21.8	none	1.32
D	C	Penn Square Mutual Fund	9.9	-18.7	7.4	126.1	-21.5	none	0.65
B	C	Pennsylvania Mutual Fund	8.0	-20.1	none	26.7	-28.2	none	1.84
D	D	Pine Street Fund	9.3	-16.2	6.0	34.5	-20.1	none	1.22
B	C	Plitrend Fund	12.7	-23.4	3.5	16.9	-28.7	none	1.24
C	F	T Rowe Price Growth Stock Fund	5.1	-22.0	5.0	802.3	-22.0	none	0.49
A	D	T Rowe Price New Era Fund	10.1	-28.9	7.3	342.1	-30.5	none	0.64
A +	F	T Rowe Price New Horizons Fund	10.8	-24.7	4.7	787.6	-19.9	none	0.53
D	F	PRO Fund	3.1	-22.9	2.9	28.8	-33.2	none	1.21
D	F	Revere Fund	0.9	-20.5	2.8	3.0	-36.2	none	2.10
C	D	SAFECO Equity Fund	10.5	-23.7	8.0	27.2	-26.7	none	0.62
B	C	SAFECO Growth Fund	11.0	-23.2	4.9	35.7	-23.2	none	0.64
D	B	SAFECO Income Fund	10.9	-14.6	9.1	14.3	-16.4	none	0.63
C	D	Schuster Fund	6.4	-20.6	none	9.7	-28.2	none	1.65
C	F	Scudder Common Stock Fund	8.4	-14.0	4.6	139.7	-11.2	none	0.73
•A	C	Scudder Development Fund	—	-17.8	1.8	88.8	11.0	none	1.17
C	F	Scudder Special Fund	6.7	-21.2	3.8	94.7	-21.8	none	0.93
D	D	Selected American Shares	5.2	-9.2	8.1	65.1	-15.8	none	0.94
D	F	Selected Special Shares	4.2	-23.5	3.2	24.1	-29.5	none	1.10
•B	A	Sequoia Fund	—	4.2	5.2	149.8	32.5	none	1.10
B	A	Sherman, Dean Fund	8.8	-36.1	none	4.6	-42.5	none	1.91
•B	•F	Sierra Growth Fund	—	-22.9	2.9	3.0	-26.8	none	2.03
D	F	Steadman American Industry Fund Trust	0.2	-23.3	5.4	10.8	-29.4	none	3.61
D	D	Steadman Investment Fund	5.2	-16.7	7.0	13.3	-21.3	none	2.43
C	C	Steadman Oceanographic, Tech & Growth Fund	5.3	-23.6	2.8	7.3	-27.7	none	3.91
A +	F	Stein Roe & Farnham Capital Opportunities Fund	12.5	-17.9	2.0	110.5	-12.4	none	0.91
A	F	Stein Roe & Farnham Stock Fund	8.8	-15.0	2.7	169.9	-15.8	none	0.62

*Fund rated for two periods only; maximum allowable rating A. *Fund not in operation for full period.

Hutton and Apache agree: The time to purchase existing oil and gas reserves is before the economic recovery begins.



A major investment firm and a leading oil and gas company have combined their expertise to acquire domestic properties on which producing oil and gas wells are located. No drilling or exploration is intended. Investors will acquire and sell existing oil and gas reserves at a time when current owners, because of high interest rates and the need for new capital, are seeking to dispose of these properties at prices which may prove to be historically favorable to the partnership.

Hutton and Apache both believe that once the economic recovery is underway the United States could once again be faced with energy shortages and spiraling prices for oil and gas. In addition, current mandated gas deregulation by 1985 and a new tax structure combine to positively influence investments in producing properties.

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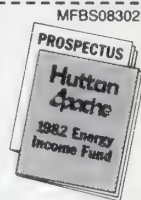
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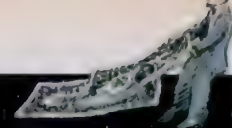
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1982 Fund Ratings



Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1970-82	Latest 12 months return from capital growth	return from income dividends	6/30/82 (millions)	% change '82 vs. '81		
		Standard & Poor's 500 stock average	8.4%	-16.5%	6.2%				
		FORBES stock fund composite	9.6%	-15.5%	4.6%				
		FORBES balanced fund composite	8.1%	-9.1%	9.7%				
		FORBES bond and preferred stock fund composite	6.3%	-5.1%	13.9%				
Stock funds (no load)			Group averages						
			9.4%	-16.2%	4.1%				
B	A	Tudor Fund	9.9%	-3.3%	1.9%	\$ 21.2	6.5%	none	\$1.58
A+	C	Twentieth Century Growth Investors	21.5	-23.6	none	261.9	2.3	none	1.08
A+	B	Twentieth Century Select Investors	17.9	-13.2	0.9	49.4	68.0	none	1.08
B	B	The Value Line Fund	13.4	-9.2	6.5	72.9	-2.0	none	0.63
D	A	The Value Line Income Fund	13.9	-0.6	9.3	70.5	-5.8	none	0.75
●B	B	Value Line Leveraged Growth Investors	—	0.2	4.3	47.5	99.6	none	0.77
A	C	The Value Line Special Situations Fund	9.6	-18.4	2.9	119.7	-22.2	none	0.97
C	D	Variable Stock Fund	7.4	-13.3	4.2	4.9	-15.5	none	1.24
A+	D	Weingarten Equity Fund	15.2	-17.2	0.3	35.5	-24.0	none	1.20
C	B	Windsor Fund	12.4	-12.1	7.3	918.4	-6.0	none	0.63
Not rated**									
		Alliance Technology Fund	—	—	—	6.0	—	none	NA
		Analytic Optioned Equity Fund	—	-8.4	4.9	16.7	160.9	none	1.50
		Bridges Investment Fund	—	-12.2	6.9	2.1	-12.5	none	1.12
		The Evergreen Total Return Fund	—	-9.0	7.0	17.2	3.6	none	1.37
		Fidelity Asset Investment Trust	—	-11.1	1.4	28.8	20.5	none	1.14
		Fidelity Select-Technology Portfolio	—	—	—	2.4	—	none	1.50
		Finomic Investment Fund	—	-26.0	2.2	3.4	6.3	none	1.50
		Gateway Option Income Fund	—	-6.9	4.7	20.9	3.5	none	1.50
		Gintel ERISA Fund	—	—	—	15.4	—	none	1.60
		Gintel Fund	—	6.1	6.4	45.8	249.6	none	1.30
		Golconda Investors	—	-32.4	7.9	6.2	-19.5	none	2.00
		The GSC Performance Fund	—	-34.2	none	6.9	-18.8	none	2.70
		Lehman Capital Fund	—	-5.5	3.4	38.1	2.1	none	1.30
		Leverage Fund of Boston ⁸	11.6	-12.0	2.3	34.4	-44.1	†	0.80
		Lindner Fund	—	6.0	3.1	87.6	307.4	none	1.33
		Mairs & Power Income Fund	—	-15.0	9.5	1.8	-14.3	none	1.20
		Medical Technology Fund	—	-14.8	0.4	17.9	18.5	none	1.56
		Mutual Qualified Income Fund	—	-2.1	3.1	13.1	184.8	none	0.85
		North Star Regional Fund	—	-8.2	4.7	15.4	17.6	none	1.00
		Nova Fund	—	-14.8	2.5	13.8	50.0	none	2.00
		Pax World Fund	—	-10.4	5.3	5.3	26.2	none	1.60
		P-C Capital Fund ⁹	3.1	-12.5	none	8.1	-58.0	†	0.79
		Qualified Dividend Portfolio I	—	0.2	10.0	17.6	-15.8	none	0.80
		Quasar Associates	—	-24.6	0.5	16.7	-10.7	none	1.34
		Quest for Value Fund	—	5.1	1.9	5.6	133.3	none	2.77
		The Rainbow Fund	—	-27.0	none	1.6	-23.8	none	3.21
		Scudder Capital Growth Fund ¹⁰	8.1	-25.1	none	35.2	-58.9	†	0.67
		SteinRoe Special Fund	—	-23.1	3.1	49.3	-24.9	none	0.93
		SteinRoe Universe Fund	—	-13.9	1.2	115.1	-5.4	none	1.16
		Stratton Growth Fund	—	-6.7	2.5	5.8	-20.6	none	1.90
		Trustees' Commingled Equity Fund	—	-15.9	7.2	104.7	24.5	none	0.67
		Twentieth Century ULTRA Investors	—	—	—	37.6	—	none	1.08
		Unified Accumulation Fund	—	-4.4	none	1.9	-5.0	none	3.01
		Unified Growth Fund	—	-19.3	3.9	3.5	-27.1	none	1.39
		United Services Gold Shares ¹¹	—	-33.5	19.3	61.3	-21.4	none	1.00

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The Gulfstream III has proven that there are no alternatives to its superiority as an executive jet transport.

When other business jets have tried to carry as many people as far, they have come up short. Only the Gulfstream III can fly at least 8 passengers and baggage over 4,000 statute miles in about 8 hours.

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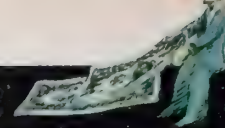
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Gulfstream American

1982 Fund Ratings



Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1970-82	Latest 12 months return from capital growth	Latest 12 months return from income dividends	6/30/82 (millions)	% change '82 vs. '81		
Standard & Poor's 500 stock average			8.4%	-16.5%	6.2%				
FORBES stock fund composite			9.6%	-15.5%	4.6%				
FORBES balanced fund composite			8.1%	-9.1%	9.7%				
FORBES bond and preferred stock fund composite			6.3%	-5.1%	13.9%				
Stock funds (no load)			Group averages						
			9.4%	-16.2%	4.1%				
Not rated**									
		USAA Mutual Fund-Growth Fund	—	-16.9%	3.0%	\$54.5	-14.7%	none	\$1.00
		USAA Mutual Fund-Sunbelt Era Fund	—	—	—	6.0	—	none	1.50
		Vanguard Index Trust	—	-16.1	5.9	79.9	-22.1	none	0.42
Stock funds (closed end)			Group averages					% prem (+) or disc (-)	
			10.7%	-22.3%	4.9%				
C	C	The Adams Express Company	11.6%	-13.8%	8.3%	\$260.8	-15.2%	-11.2%	\$0.46
B	A	ASA Limited	17.6	-38.0	19.4	301.9	-38.0	-13.8	0.20
●C	B	Baker, Fentress & Co	—	-18.3	4.8	223.4	-19.6	-27.3	0.49
B	F	Central Securities	10.3	-12.4	3.4	61.6	-14.2	-26.1	0.78
B	A	Claremont Capital	8.0	-8.3	6.4	30.9	-13.2	-22.3	1.02
C	F	Consolidated Investment Trust	6.7	-19.8	7.2	34.3	-24.8	-2.4	0.38
A+	C	General American Investors	13.4	-18.6	3.6	164.6	-25.2	+9.0	1.19
●D	C	Highland Capital Corp	—	-31.6	none	7.6	-62.2	+17.6	3.68
C	A+	The Japan Fund	15.2	-21.4	1.9	184.7	-25.0	-14.9	0.66
B	D	The Lehman Corp	11.3	-12.7	5.8	503.1	-17.7	-4.5	0.47
B	C	Madison Fund	14.5	-16.4	7.4	455.9	-24.6	-15.8	1.08
A+	F	Niagara Share Corp	10.7	-27.1	3.6	116.5	-33.5	+5.7	0.99
D	F	OTF Equities	-2.1	-32.1	none	.6	-25.0	+24.6	24.90
A+	C	Petroleum & Resources Corp	15.2	-24.2	5.9	183.0	-28.9	+4.7	0.44
●B	●D	Precious Metals Holdings	—	-33.3	12.4	43.5	-34.8	-9.1	1.23
●C	A	Source Capital	—	-6.8	7.4	202.6	-8.9	-6.7	1.02
A+	F	Spectra Fund	7.9	-18.0	none	3.0	-18.9	-47.0	3.10
B	F	Tri-Continental Corp	10.4	-15.9	6.1	683.4	-19.1	-11.1	0.53
B	D	U S & Foreign Securities	10.4	-10.5	5.7	137.8	-17.7	-9.0	1.00
Not rated**									
		CL Assets	—	neg	none	12.6	-13.7	neg	1.60
		Engex	—	-30.7	3.8	11.1	-31.5	-29.6	0.85
		Equity Strategies Fund	—	—	—	5.3	—	-3.7	1.50
		The Mexico Fund	—	-66.7	none	37.4	-66.7	-13.1	1.50
		Nautilus Fund	—	-14.6	none	15.1	-14.7	-4.6	1.51
Funds for investing abroad			Group averages					Maximum sales charge	
			9.6%	-23.8%	4.2%				
C	D	Canadian Fund	6.4%	-32.8%	6.5%	\$18.0	36.6%	8.50%	\$1.12
A	A	International Investors	19.0	-28.3	12.6	203.3	-23.7	8.50	0.93
C	F	Keystone International Fund	5.0	-20.7	2.6	27.1	-28.5	8.50	1.06
B	D	Putnam International Equities	10.4	-21.5	4.0	31.8	-24.3	8.50	1.44
D	C	Scudder International Fund	8.0	-16.9	2.7	57.1	1.4	none	1.12
C	C	Transatlantic Fund	9.0	-34.9	2.3	27.6	-31.3	none	1.24
Not rated**									
		Alliance International Fund	—	—	—	19.3	—	none	1.65
		G T Pacific Fund	—	-23.0	1.1	11.4	-22.5	none	1.50
		Kemper International Fund	—	-17.9	3.6	19.8	-13.5	8.50	1.50
		Merrill Lynch Pacific Fund	—	-20.6	3.2	36.4	81.1	6.50	1.75
		T Rowe Price International Fund	—	-21.3	3.1	69.4	10.2	none	1.10

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10 Years	203.3	62.9	87.1	129.6
5 years	98.6	16.7	47.3	61.8

Note: The figures for Kemper Total Return Fund are based on changes in net asset value per share with all income and capital gains distributions reinvested, and after adjusting for a maximum front-end sales charge of 8.5%. No adjustment has been made for income taxes. Figures for the unmanaged stock market indices assume reinvested dividends. The Consumer Price Index is published by the U.S. Department of Labor. Future performance is not guaranteed. Life of fund figures are from March 2, 1964.

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Attention: G. Cole

1982 Fund Ratings

Performance in UP markets		in DOWN markets		Investment results					Maximum sales charge	Annual expenses per \$100
				Average annual total return 1970-82	Latest 12 months		Total assets			
				return from capital growth	return from income dividends	6/30/82 (millions)	% change '82 vs. '81			
Standard & Poor's 500 stock average				8.4%	-16.5%	6.2%				
FORBES stock fund composite				9.6%	-15.5%	4.6%				
FORBES balanced fund composite				8.1%	-9.1%	9.7%				
FORBES bond and preferred stock fund composite				6.3%	-5.1%	13.9%				
Balanced funds (load)				Group averages						
				8.6%	-8.1%	9.7%				
C	D	American Balanced Fund	8.1%	-9.4%	9.3%	\$ 86.3	-10.8%	8.50%	\$0.75	
B	D	American General Harbor Fund	11.0	-12.4	7.1	109.6	-15.3	8.50	0.79	
C	C	Axe-Houghton Fund B	9.1	-10.3	6.5	129.3	-19.1	8.00	0.67	
C	D	Boston Foundation Fund	7.5	-8.1	9.8	22.4	-11.8	8.50	1.54	
D	B	CG Income Fund	6.7	-4.4	13.4	163.7	-2.6	7.50	0.70	
B	D	The Colonial Fund	7.0	-11.1	6.3	54.4	-15.5	8.50	0.99	
A	F	Commerce Income Shares	8.1	-7.0	11.7	44.9	-10.9	8.00	1.00	
C	C	Composite Bond & Stock Fund	8.6	-13.2	9.3	17.6	-12.0	7.00	0.90	
B	F	Eaton & Howard Balanced Fund	6.6	-14.0	8.1	55.3	-22.9	7.25	0.71	
D	B	Eaton & Howard Income Fund	7.5	-7.0	14.0	17.5	-7.9	7.25	0.93	
C	B	Franklin Custodian Funds—Income Series	11.4	-4.0	12.9	37.4	3.9	7.25	0.96	
B	F	Investors Mutual	7.1	-7.5	9.5	995.9	-17.7	8.00	0.57	
A +	D	Kemper Total Return Fund	13.5	-11.9	5.6	99.5	-0.8	8.50	0.62	
D	D	Keystone Custodian Funds—K-1	7.9	-10.4	11.0	54.7	-16.9	8.50	0.63	
D	C	Lord Abbett Income Fund	8.4	-1.5	12.7	33.7	9.4	7.25	1.22	
D	B	Magna Income Trust	7.4	-6.1	14.7	6.4	-5.9	7.25	1.48	
A +	F	Massachusetts Fund	9.1	-10.3	10.7	163.0	-16.2	8.50	0.61	
•C	C	Mass Income Development Fund	—	-12.3	9.7	155.8	-17.4	7.25	0.76	
D	C	Mutual of Omaha Income Fund	7.8	-2.9	12.4	29.4	9.7	8.00	1.04	
B	D	Nation-Wide Securities	8.0	-10.6	8.1	30.5	-18.7	8.50	1.06	
National Securities										
C	F	Balanced Fund	6.7	-6.4	7.1	1.7	-15.0	7.25	0.76	
C	B	Income Fund	10.2	-6.9	9.4	48.6	-12.6	7.25	0.82	
A	D	National Total Return Fund ¹²	10.5	-14.5	8.6	81.4	-13.7	7.25	0.72	
•D	C	Oppenheimer Income Fund of Boston	—	-8.4	11.3	32.2	-12.0	8.50	1.35	
•B	C	Phoenix-Chase Convertible Fund Series ¹³	—	-9.6	10.1	45.2	-47.3	8.50	1.52	
D	B	Provident Fund for Income	8.7	-9.5	8.9	81.9	-20.2	7.25	0.84	
•A	C	Putnam Convertible Fund	—	-8.4	8.9	19.4	2.1	8.50	1.14	
A	D	The George Putnam Fund of Boston	9.0	-7.7	9.6	221.5	-11.8	8.50	0.59	
D	A	Putnam Income Fund	7.3	-0.7	12.8	121.5	-4.3	6.75	0.87	
B	C	Seligman Income Fund ¹⁴	10.2	-6.7	11.0	55.1	-9.2	7.25	0.78	
D	A	Sentinel Balanced Fund	8.2	-3.5	9.0	10.1	-11.4	8.50	0.93	
•D	A	Shearson Income Fund	—	-2.1	9.7	4.6	-8.0	5.00	1.40	
C	C	Sigma Trust Shares	8.7	-10.2	9.0	19.7	-16.5	8.50	1.06	
A	D	SoGen International Fund	8.5	-3.8	9.8	25.2	-0.8	4.50	1.55	
•B	F	United Continental Income Fund	—	-13.6	9.3	34.1	-25.6	8.50	0.89	
A	D	Vance, Sanders Investors Fund	9.1	-9.4	8.8	116.1	-15.9	8.50	0.73	
Not rated**										
Convertible Yield Securities				—	-10.8	6.3	18.7	-26.1	6.50	1.49
Country Capital Income Fund				—	-6.6	11.3	2.9	-9.4	5.00	1.50
GPM Fund				—	-12.2	5.7	2.1	-12.5	8.00	1.50
Merrill Lynch Equi-Bond I Fund				—	-5.1	8.5	11.0	-6.0	4.00	1.50
Phoenix-Chase Balanced Fund Series				—	-1.7	9.4	48.1	-8.9	8.50	1.00
Balanced funds (no load)				Group averages						
				6.0%	-9.2%	10.7%				
B	I	Dodge & Cox Balanced Fund	7.9%	-9.4%	7.9%	\$ 14.9	-10.2%	none	\$0.79	
•C	C	The Dreyfus Special Income Fund	—	-14.3	11.5	59.7	-17.3	none	0.85	
•Fund rated for two periods only; maximum allowable rating A. *Fund not in operation for full period. **Funds that were not offered to the public or whose assets did not exceed \$2 million before Oct. 3, 1974, or funds that were not rated because of a change in investment policy. ¹² Formerly National Securities-Dividend Fund. ¹³ Formerly Chase Convertible Fund of Boston. ¹⁴ Formerly Union Income Fund.										

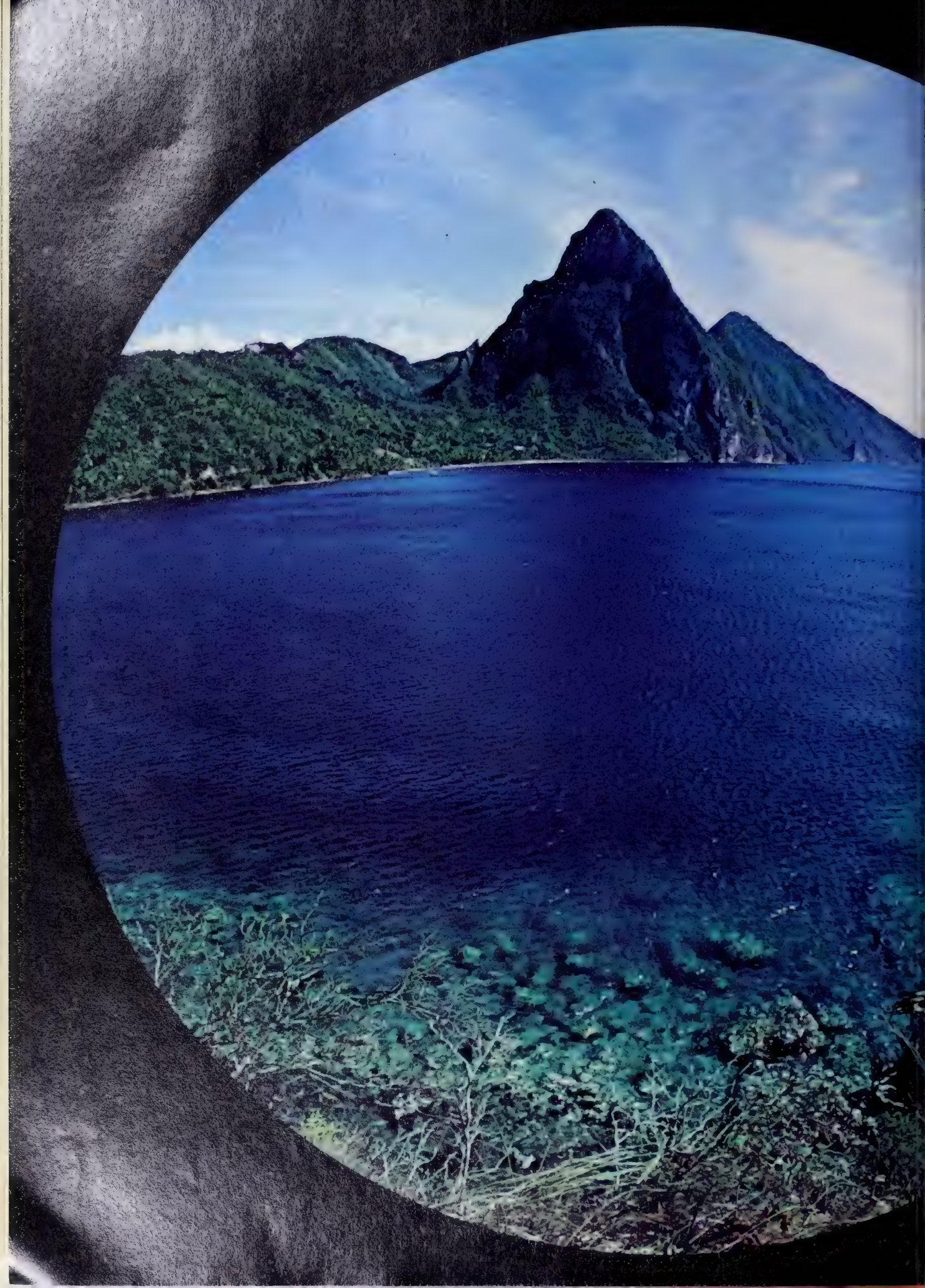
•Fund rated for two periods only; maximum allowable rating A. *Fund not in operation for full period. **Funds that were not offered to the public or whose assets did not exceed \$2 million before Oct. 3, 1974, or funds that were not rated because of a change in investment policy. ¹²Formerly National Securities-Divider Fund. ¹³Formerly Chase Convertible Fund of Boston. ¹⁴Formerly Union Income Fund.



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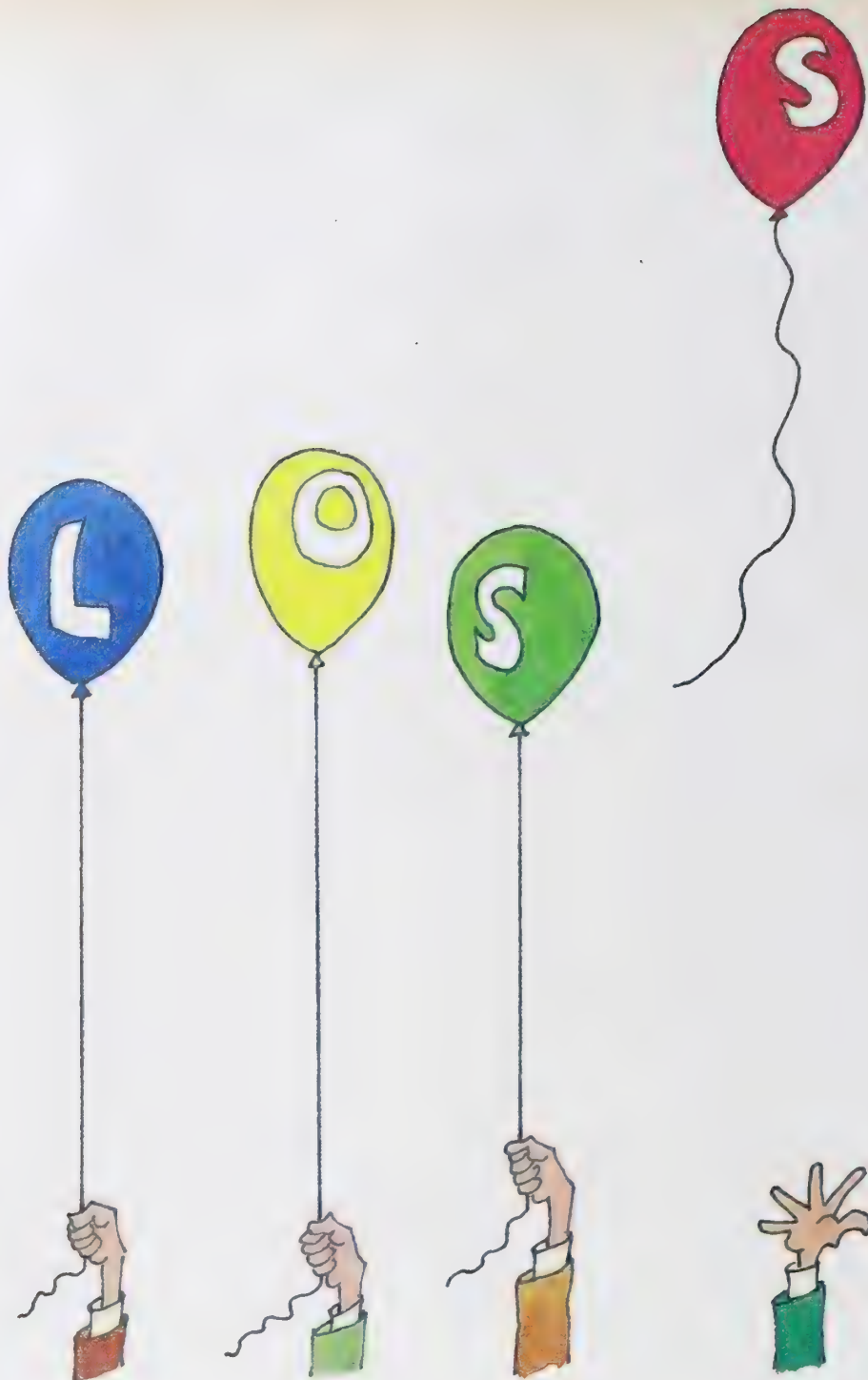
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1982 Fund Ratings



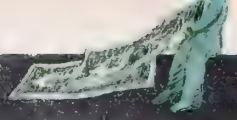
Performance in UP markets			Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
			Average annual total return 1970-82	Latest 12 months return from capital growth	return from income dividends	6/30/82 (millions)	% change '82 vs. '81		
		Standard & Poor's 500 stock average	8.4%	-16.5%	6.2%				
		FORBES stock fund composite	9.6%	-15.5%	4.6%				
		FORBES balanced fund composite	8.1%	-9.1%	9.7%				
		FORBES bond and preferred stock fund composite	6.3%	-5.1%	13.9%				
Balanced funds (no load)			Group averages						
			6.0%	-9.2%	10.7%				
B	D	Loomis-Sayles Mutual Fund	7.3%	-6.2%	7.9%	\$ 66.6	-12.8%	none	\$0.81
•D	F	Newton Income Fund-Income Fund Portfolio	—	-7.4	12.9	5.0	-5.7	none	1.75
D	F	Scudder Income Fund	5.6	-4.9	13.5	63.2	19.9	none	0.83
C	D	Southwestern Investors Income Fund	2.9	-6.0	13.7	2.9	-14.7	none	1.07
A+	F	Stein Roe & Farnham Balanced Fund	6.4	-16.0	5.6	68.8	-21.5	none	0.70
A+	F	Unified Mutual Shares	6.8	-20.0	7.8	6.1	-24.7	none	1.24
•D	B	Wellesley Income Fund	—	-9.2	12.9	80.5	-15.7	none	0.72
B	F	Wellington Fund	7.8	-11.2	9.4	470.2	-17.8	none	0.62
C	F	Wisconsin Income Fund	3.5	-6.2	14.9	10.2	-3.8	none	1.00
Not rated**									
		USAA Mutual Fund-Income Fund	—*	0.8	10.2	15.9	17.8	none	0.97
Balanced funds (closed end)			Group averages					% prem (+) or disc (-)	
			—	-19.1%	6.6%				
•A	B	American General Convertible Securities	—*	-11.8%	8.6%	\$ 54.3	-45.7%	+1.8%	\$0.93
•A	D	Bancroft Convertible Fund	—*	-22.6	9.3	33.3	-53.8	-7.4	1.20
•B	B	Castle Convertible Fund	—*	1.8	8.5	27.4	-4.9	-13.0	1.39
•C	•F	Cyprus Corp	—*	-43.9	none	45.1	-11.6	+63.0	1.10
Bond and preferred stock funds (load)			Group averages					Maximum sales charge	
			6.4%	-6.1%	14.2%				
Not rated									
		Age High Income Fund	—*	-9.3%	15.3%	\$ 15.7	93.8%	7.25%	\$1.18
		American General Capital Bond Fund	—	-8.6	13.5	74.1	-11.6	8.50	0.90
		American General High Yield Investments	—*	-8.3	15.4	229.5	-2.2	6.75	0.84
		American National Bond Fund	—*	0.1	11.6	3.1	-6.1	5.00	1.00
		Axe-Houghton Income Fund	7.4	-3.2	12.6	30.1	-7.1	8.00	0.99
		Bond Fund of America	—*	-4.1	14.9	200.4	21.7	8.50	0.73
		Chancellor High Yield Fund	—*	-10.9	16.1	114.4	85.1	6.75	0.96
		Chancellor Quality Income Fund	—*	—	—	6.6	—	6.75	NA
		Colonial High Yield Securities	—*	-13.8	16.5	41.3	4.3	8.50	1.09
		Colonial Income Fund	6.4	-4.9	14.3	143.6	-10.3	8.50	0.77
		Composite Income Fund	—*	-4.7	13.2	3.2	-3.0	7.00	1.20
		Delchester Bond Fund	—*	-7.0	14.8	25.3	4.1	8.50	0.95
		Federated High Income Securities	—*	-8.9	15.3	72.3	24.9	6.50	1.11
		First Investors Bond Appreciation Fund	—*	-7.0	10.8	42.4	7.3	7.25	1.12
		First Investors Fund for Income	—*	-14.3	15.4	515.7	-9.4	8.50	0.91
		Franklin Custodian Funds—U.S. Govt Series	3.3	0.0	12.3	9.0	3.5	7.25	1.09
		John Hancock Bond Fund	—*	-3.8	13.7	365.5	27.5	8.00	0.89
		John Hancock U S Government Securities Fund ¹⁵	7.2	-3.0	—	25.3	127.9	8.00	1.38
		High Income Shares	—*	-12.0	16.3	29.5	63.9	7.25	1.26
		High Yield Securities	—*	-9.5	15.0	82.9	-14.3	6.50	1.17
		IDS Bond Fund	—*	-5.6	15.3	642.7	20.5	3.50	0.58
		INA High Yield Fund	—*	-9.1	16.5	41.1	-9.9	6.75	1.00
		Income Price & Index Fund	—*	-13.3	13.0	16.6	-12.6	7.50	1.69

•Fund rated for two periods only; maximum allowable rating A. *Fund not in operation for full period. **Funds that were not offered to the public or whose assets did not exceed \$2 million before Oct. 3, 1974, or funds that were not rated because of a change in investment policy. ¹⁵Formerly John Hancock Balanced Fund. Dividend yield omitted because of change in investment policy. NA: Not available.

1982 Fund Ratings

	Investment results			Total assets		Maximum sales charge	Annual expenses per \$100
	Average annual total return 1970-82	Latest 12 months return from capital growth	Latest 12 months return from income dividends	6/30/82 (millions)	% change '82 vs. '81		
Standard & Poor's 500 stock average	8.4%	-16.5%	6.2%				
FORBES stock fund composite	9.6%	-15.5%	4.6%				
FORBES balanced fund composite	8.1%	-9.1%	9.7%				
FORBES bond and preferred stock fund composite	6.3%	-5.1%	13.9%				
Bond and preferred stock funds (load)							
	Group averages						
	6.4%	-6.1%	14.2%				
Not rated							
InterCapital High Yield Securities	—*	-6.5%	15.2%	\$188.1	12.3%	5.50%	\$0.73
Investment Quality Interest	—*	-2.7	14.2	30.0	39.5	4.50	1.09
Investors Selective Fund	6.3%	-4.1	14.3	542.5	4.8	7.00	0.58
JP Income Fund	—*	-4.1	13.1	27.1	1.9	8.00	0.69
Kemper High Yield Fund	—*	-5.1	15.4	118.8	5.0	6.75	0.75
Kemper Income & Capital Preservation Fund	—*	-5.1	14.6	77.2	-5.5	6.00	0.56
Kemper U S Government Securities Fund ¹⁶	—*	-3.5	14.3	15.7	65.3	4.00	0.79
Keystone Custodian Funds							
B-1	6.2	-2.8	12.8	46.7	0.7	4.25	0.52
B-2	7.7	-5.2	12.8	65.2	-11.2	8.50	0.67
B-4	8.5	-5.3	13.5	350.9	-8.4	8.50	0.64
Lord Abnett Bond Debenture Fund	—*	-9.7	12.4	156.3	-10.4	8.50	0.67
Massachusetts Financial Bond Fund	—*	-4.2	13.9	175.8	2.0	7.25	0.94
Massachusetts Financial High Income Trust	—*	-8.0	16.1	146.4	21.2	7.25	0.93
Massachusetts Financial Intl Trust-Bond Portfolio	—*	-4.1	13.3	32.4	71.4	7.25	1.39
Merrill Lynch Corp Bond Fund High Income	—*	-11.0	15.5	198.6	-14.7	4.00	0.96
Merrill Lynch Corp Bond Fund High Quality	—*	-3.8	15.2	60.1	380.8	4.00	NA
Merrill Lynch Corp Bond Fund Intermediate Term	—*	-1.4	14.0	8.3	29.7	2.00	NA
Monthly Income Shares	—*	-4.9	13.5	32.2	-5.9	8.50	1.01
National Securities							
Bond Fund	5.1	-9.9	15.3	113.2	1.0	7.25	0.70
Preferred Fund	7.6	-6.7	11.9	2.8	-6.7	7.25	0.85
NEL Income Fund	—*	-2.5	13.5	26.7	-2.9	8.00	0.82
Oppenheimer High Yield Fund	—*	-10.2	16.3	141.5	20.4	6.75	1.00
Phoenix-Chase High Yield Fund	—*	-7.4	16.4	15.4	52.5	7.00	1.50
Pioneer Bond Fund	—*	-1.9	12.9	9.8	30.7	8.50	0.80
Putnam High Yield Trust	—*	-7.8	15.4	296.3	7.8	6.75	0.69
St Paul Income Fund	—*	-0.6	12.2	8.7	-1.1	6.00	1.18
Security Bond Fund	—*	-4.1	14.1	27.0	3.9	2.75	0.79
Sentinel Bond Fund	5.0	-0.4	13.4	9.7	11.5	8.50	0.92
Shearson High Yield Fund ¹⁷	—*	-6.0	15.5	63.4	-7.9	5.00	0.95
Sigma Income Shares	—*	-4.8	13.1	15.3	0.7	8.50	0.78
United Bond Fund	5.7	-5.0	15.2	226.5	3.7	8.50	0.53
United High Income Fund	—*	-8.1	16.2	261.5	62.6	8.50	0.90
Vance, Sanders Income Fund	—*	-7.8	13.1	10.3	-2.8	8.50	1.09
Venture Income (+) Plus	—*	-6.5	14.4	10.3	10.8	8.50	1.49
Bond and preferred stock funds (no load)							
	Group averages						
	6.1%	-3.6%	13.1%				
Not rated							
Aetna Income Shares	—*	-0.1%	11.3%	\$44.6	15.8%	†	\$0.25
Alliance Bond Fund	—*	-4.3	12.6	12.6	-11.9	none	1.00
Alpha Income Fund	—*	-4.6	12.4	4.2	-2.3	none	1.50
American Investors Income Fund	—*	-25.2	15.4	12.6	-21.3	none	1.47

*Fund not in operation for full period. †Fund not currently selling new shares. ¹⁶Formerly Kemper Fund for Govt Guaranteed Securities. ¹⁷Formerly Triangle Income Fund. NA: Not available.



	Investment results						
	Average	Latest 12 months		Total assets		Maximum sales charge	Annual expenses per \$100
	annual total return 1970-82	return from capital growth	return from income dividends	6/30/82 (millions)	% change '82 vs. '81		
Standard & Poor's 500 stock average	8.4%	-16.5%	6.2%				
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FORBES balanced fund composite	8.1%	-9.1%	9.7%				
FORBES bond and preferred stock fund composite	6.3%	-5.1%	13.9%				
Bond and preferred stock funds (no load)							
	Group averages						
	6.1%	-3.6%	13.1%				
Archer U S Government Guaranteed Securities Fund	—*	1.3%	13.4%	\$ 11.1	282.8%	none	\$1.50
Babson (D L) Income Trust	6.5%	-1.5	12.4	27.1	0.0	none	0.75
Boston Company Government Income Fund	—*	-0.7	10.8	2.9	11.5	none	1.68
California Fund for Inv In U S Govt Secc	—*	-4.1	11.1	4.8	-12.7	none	1.75
Capital Preservation Treasury Note Trust	—*	2.1	9.7	7.8	23.8	none	1.00
Dreyfus A Bonds Plus	—*	-2.2	13.4	29.3	76.5	none	1.00
Fidelity Corporate Bond Fund	—*	-3.2	14.2	103.6	10.8	none	0.81
Fidelity Government Securities Fund Ltd	—*	-1.0	13.3	66.5	7.1	none	1.05
Fidelity High Income Fund	—*	-9.4	16.6	115.0	4.0	none	0.89
Fidelity Thrift Trust	—*	-0.4	13.9	61.7	18.9	none	0.78
Financial Bond Shares	—*	-2.8	13.8	4.4	29.4	none	0.00
Fund for U S Govt Securities	4.9	0.2	10.8	50.4	-4.7	none	1.39
Lexington GNMA Income Fund	—*	-1.3	13.4	5.5	14.6	none	1.56
Liberty Fund	3.9	-11.3	13.4	7.3	-13.1	none	1.50

*Fund not in operation for full period.

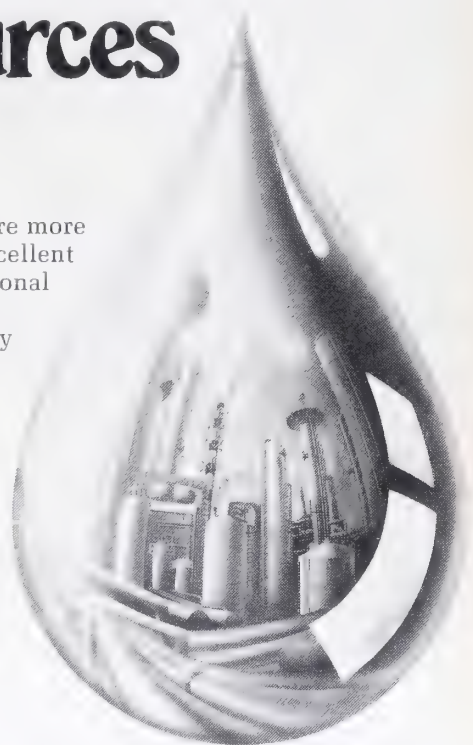
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1982 Fund Ratings

	Investment results			Total assets 6/30/82 (millions)	% change '82 vs. '81	Maximum sales charge	Annual expenses per \$100
	Average	Latest 12 months					
	annual total return 1970-82	return from capital growth	return from income dividends				
Standard & Poor's 500 stock average	8.4%	-16.5%	6.2%				
FORBES stock fund composite	9.6%	-15.5%	4.6%				
FORBES balanced fund composite	8.1%	-9.1%	9.7%				
FORBES bond and preferred stock fund composite	6.3%	-5.1%	13.9%				
Bond and preferred stock funds (no load)							
	Group averages						
	6.1%	-3.6%	13.1%				
Not rated							
Midwest Income Trust Intermediate Term Govt Fund	—	-0.1%	13.4%	\$ 6.5	97.0%	none	\$0.99
Mutual of Omaha America Fund	—	3.3	12.5	8.9	0.0	none	1.40
North Star Bond Fund	—	-3.2	12.0	8.7	26.1	none	1.00
Northeast Investors Trust	6.8%	-5.9	14.4	125.9	-0.9	none	0.66
T Rowe Price New Income Fund	—	-1.8	13.8	404.0	14.7	none	0.62
PRO Income Fund	—	-5.8	13.5	19.6	-4.9	none	1.16
Qualified Dividend Portfolio II	—	-4.0	14.9	26.7	60.8	none	0.80
Steadman Associated Fund	6.8	-12.4	9.7	28.6	-17.6	none	2.03
SteinRoe Bond Fund	—	-2.5	13.8	28.3	83.8	none	0.80
Transamerica New Income ¹⁸	7.4	-5.6	12.0	3.6	-10.0	none	1.52
The Value Line Bond Fund	—	—	—	26.1	—	none	NA
Vanguard Fixed Income Secs-GNMA	—	0.6	14.0	30.7	21.3	none	0.89
Vanguard Fixed Income Secs-High Yield	—	-5.8	16.1	15.5	9.9	none	0.93
Vanguard Fixed Income Secs-Invest Grade	—	-1.4	13.4	39.0	7.7	none	0.93
Bond and preferred stock funds (closed end)							
	Group averages					% prem (+) or disc (-)	
	—	-4.5%	14.1%				
Not rated							
American General Bond Fund	—	-5.5%	13.9%	\$152.5	-4.9%	-1.0%	\$0.85
Bunker Hill Income Securities	—	-5.3	13.9	38.4	-5.2	+3.1	0.93
Circle Income Shares	—	-2.9	14.0	23.7	-1.3	-1.9	0.75
CNA Income Shares	—	-5.1	15.0	43.3	-4.6	-0.2	0.96
Current Income Shares	—	-6.1	14.2	29.3	-6.1	-2.9	1.10
Drexel Bond-Debenture Trading Fund	—	-1.2	13.5	36.0	0.6	-1.7	1.61
Excelsior Income Shares	—	-6.0	13.9	31.0	-6.1	-0.1	0.96
Federated Income & Private Placement Fund	—	-8.8	15.2	33.8	-8.2	-3.3	1.54
Fort Dearborn Income Securities	—	-2.9	13.9	67.7	-2.5	-5.3	0.83
John Hancock Income Securities	—	-4.2	14.2	106.5	-4.1	-4.5	0.83
John Hancock Investors	—	-1.8	14.1	102.7	0.1	-9.5	0.87
Hatteras Income Securities	—	-5.5	13.4	36.6	-5.4	+2.1	1.05
INA Investment Securities	—	-2.5	13.4	61.0	-2.1	-0.6	1.20
Independence Square Income Securities	—	-5.4	15.0	23.1	-4.6	-4.8	1.14
InterCapital Income Securities	—	-5.6	14.5	134.4	-2.4	+4.7	0.76
Lincoln National Direct Placement Fund	—	-9.3	13.8	46.0	-9.5	-14.9	0.96
MassMutual Corporate Investors	—	-7.7	14.3	87.4	-7.8	-18.8	1.09
MassMutual Income Investors	—	-3.8	13.9	98.1	-3.4	+0.1	1.12
Montgomery Street Income Securities	—	-5.2	13.9	114.9	-5.2	-0.7	0.80
Mutual of Omaha Interest Shares	—	-1.8	13.4	69.6	0.1	-2.8	0.84
Pacific American Income Shares	—	-1.0	13.7	65.7	-1.1	-11.8	0.83
Paul Revere Investors	—	-1.8	14.3	35.9	-1.6	-17.0	1.23
St Paul Securities	—	-1.1	13.5	86.2	-0.7	-1.9	0.97
State Mutual Securities	—	-4.8	14.6	72.0	-4.9	-3.7	1.15
Transamerica Income Shares	—	-6.4	13.9	79.8	-6.5	+0.6	0.70
USFIC Income Fund	—	-2.7	15.0	40.1	-2.7	-5.2	1.44
Vestair Securities	—	-6.4	15.1	57.1	-5.6	-4.0	1.10

18 Formerly Transamerica Investors Fund NA: Not available.



		Investment results						
		Average annual total return 1970-82	Latest 12 months		Total assets		Maximum sales charge	Annual expenses per \$100
			return from capital growth	return from income dividends	6/30/82 (millions)	% change '82 vs. '81		
Standard & Poor's 500 stock average		8.4%	-16.5%	6.2%				
FORBES stock fund composite		9.6%	-15.5%	4.6%				
FORBES balanced fund composite		8.1%	-9.1%	9.7%				
FORBES bond and preferred stock fund composite		6.3%	-5.1%	13.9%				
Exchange funds		Group averages						
		8.4%	-18.3%	4.4%				
Not rated								
	American General Exchange Fund	—*	-19.5%	3.6%	\$ 40.8	-28.6%	none	\$0.79
	Capital Exchange Fund	8.8%	-18.5	4.2	47.6	-24.8	none	0.63
	Chestnut Street Exchange Fund	—*	-16.6	4.5	88.7	-20.7	none	0.69
	Depositors Fund of Boston	7.5	-20.4	4.3	41.1	-26.2	none	0.67
	Diversification Fund	7.8	-15.0	4.5	46.6	-21.6	none	0.65
	Exchange Fund of Boston	8.7	-16.5	4.0	39.8	-20.9	none	0.65
	Federal Street Fund	8.6	-19.4	4.3	184.2	-26.1	none	0.56
	Federated Exchange Fund	—*	-20.8	4.9	76.9	-25.8	none	0.97
	Fidelity Congress Street Fund	7.8	-19.6	5.9	37.0	-23.7	none	0.74
	Fidelity Exchange Fund	—*	-14.5	4.8	91.8	-21.9	none	0.63
	Fiduciary Exchange Fund	9.5	-17.2	4.0	33.8	-29.1	none	0.67
	Second Fiduciary Exchange Fund	8.5	-21.9	5.0	47.8	-26.4	none	0.65
	State Street Exchange Fund	—*	-18.0	4.1	90.8	-23.3	none	0.57
	Vance, Sanders Exchange Fund	—*	-17.8	3.4	100.7	-27.9	none	0.78
Kind of shares	Dual purpose funds	Group averages				% prem (+) or disc (-)		
		11.3%	-25.8%	14.2%				
Capital Income	Gemini Fund	13.8%	-12.4%	none	\$ 78.1	-12.7%	-5.4%	\$0.91
	Gemini Fund	—	—	22.0%		+28.5		
Capital Income	Hemisphere Fund	12.0	-45.7	none	19.8	-7.0	+142.4	0.99
	Hemisphere Fund	—	—	10.0		-27.8		
Capital Income	Putnam Duofund	14.1	-20.4	none	34.7	-14.7	-10.0	0.84
	Putnam Duofund	—	—	11.3		-3.9		
Capital Income	Scudder Duo-Vest Exchange Fund	5.4	-24.6	none	18.3	-21.8	-17.1	0.87
	Scudder Duo-Vest Exchange Fund	—	—	13.6		-5.5		
Portfolio avg maturity (days)	Money market funds†	Date started				Minimum initial investment		
These funds invest primarily in US government and federal agency obligations								
4	Active Assets Government Securities Trust	7/81	—	—*	\$ 100.1	—	none	\$0.96
15	Alliance Government Reserves	7/79	—	13.1%	212.7	193.0%	none	0.92
82	Alpha Cash Management Fund-Govt Secs Portfolio	10/81	—	—*	4.9	—	\$1,000	1.00
32	ASTA Government Securities Money Market Fund	1/82	—	—*	27.9	—	2,500	NA
1	Boston Company Government Money Fund	5/82	—	—*	6.6	—	2,500	NA
27	Alex Brown Cash Reserve Fund-Government Series	4/82	—	—*	47.0	—	1,500	0.21
28	Capital Preservation Fund	10/72	—	13.1	1,965.0	78.5	1,000	0.81
3	Capital Preservation Fund II	6/80	—	13.6	1,117.9	229.7	5,000	0.81
14	Cardinal Government Securities Trust	9/80	—	14.0	355.9	112.1	1,000	0.80
18	Carnegie Government Securities Trust	4/80	—	13.3	204.1	390.6	1,000	0.93
14	Cash Equivalent Fund-Government Sec Portfolio	12/81	—	—*	466.2	—	1,000	0.72
9	Centennial Government Trust	11/81	—	—*	6.8	—	none	0.75
27	Chancellor Government Securities Trust	1/82	—	—*	254.7	—	1,000	0.81
37	CMA Government Securities Fund	8/81	—	—*	979.7	—	none	0.40
16	Daily Cash Government Fund	3/82	—	—*	77.4	—	2,500	0.75
10	DBL Cash Fund-Government Securities Portfolio	3/82	—	—*	109.0	—	1,000	NA
38	Delaware Treasury Reserves	4/82	—	—*	18.3	—	1,000	NA
*Fund not in operation for full period. †All funds are no load; however, special fees may apply in some cases. NA: Not available.								

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A Meridian Computer screen, showing a personal screen.

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1982 Fund Ratings

Portfolio average maturity (days)		Investment results						Minimum initial investment	Annual expenses per \$100
		Date started	Latest 12 months		Total assets				
			return from capital growth	return from income dividends	6/30/82 (millions)	% change '82 vs. '81			
	Standard & Poor's 500 stock average			6.2%					
	FORBES stock fund composite			4.6%					
	FORBES balanced fund composite			9.7%					
	FORBES bond and preferred stock fund composite			13.9%					
Money market funds†									
These funds invest primarily in US government and federal agency obligations									
29	Dreyfus Money Market Instru Govt Sec Series	5/79	—	13.7%	\$662.3	301.6%	\$ 2,500	\$0.50	
28	Fidelity Money Market Trust U S Govt Portfolio	5/79	—	13.8	691.8	30.5	250,000	0.42	
1	Fidelity Money Market Trust U S Treasury Portfolio	4/81	—	14.0	171.3	437.0	250,000	0.42	
24	Fidelity U S Government Reserves	11/81	—	—*	304.1	—	1,000	0.98	
1	Financial Planners Federal Securities Fund ¹⁹	2/80	—	13.4	15.7	292.5	500	1.20	
20	First Variable Rate Fund for Govt Income	12/76	—	14.3	1,405.2	73.7	2,000	0.89	
14	Florida Mutual U S Govt Secs Fund-Short Term	10/80	—	13.2	9.5	179.4	1,000	1.00	
13	Founders Money Market Fund	7/81	—	—*	12.1	—	1,000	0.80	
1	Franklin Federal Money Fund	5/80	—	13.1	155.5	255.0	500	1.10	
20	Fund for Government Investors	3/75	—	14.0	1,311.7	82.9	2,500	0.68	
3	Fund for Ready Income	9/80	—	14.2	2.3	130.0	500	0.21	
15	Government Investors Trust	7/79	—	14.2	698.9	144.0	2,000	1.05	
26	Gradison U S Government Trust	4/82	—	—*	21.9	—	1,000	0.76	
22	Hilliard-Lyons Cash Management	1/81	—	13.5	208.0	243.2	3,000	0.72	
6	Wayne Hummer Money Fund Trust-Govt Portfolio	4/82	—	—*	12.1	—	3,000	1.00	
28	Hutton Government Fund	6/82	—	—*	139.6	—	10,000	NA	
14	IDS Government Securities Money Fund	3/82	—	—*	32.0	—	2,000	0.74	
13	Kemper Government Money Market Fund	11/81	—	—*	103.7	—	1,000	0.89	
1	Lehman Government Fund	10/81	—	—*	161.2	—	2,500	0.78	
8	Massachusetts Cash Management Trust-Govt Series	2/82	—	—*	18.3	—	1,000	1.18	
34	Merrill Lynch Government Fund	9/77	—	13.8	1,600.7	487.4	5,000	0.49	
10	Midwest Income Trust-Short Term Govt Fund	12/74	—	13.6	271.6	53.8	1,000	0.94	
4	The Money Fund of U S Treasury Securities	3/82	—	—*	5.4	—	2,000	1.20	
1	NEL Cash Management Trust-U S Government Series	6/82	—	—*	2.6	—	1,000	0.75	
1	Principal Protection Government Investment Fund	11/80	—	12.8	5.3	120.8	1,000	1.57	
6	The Reserve Fund-Government Portfolio	10/81	—	—*	361.7	—	1,000	0.86	
28	Scudder Government Money Fund	11/81	—	—*	118.5	—	1,000	0.80	
14	Sears U S Government Money Market Trust	2/82	—	—*	322.5	—	1,000	0.94	
26	Selected Money Market Fund-Government Portfolio	5/82	—	—*	2.4	—	1,000	NA	
27	Shearson Government and Agencies	10/80	—	13.5	838.9	415.3	5,000	0.64	
6	Sigma Government Securities Fund	9/80	—	12.8	4.0	73.9	500	0.80	
47	Strategic Treasury Positions	11/81	—	—*	8.5	—	1,000	NA	
18	Tucker Anthony Government Securities Fund	2/82	—	—*	87.8	—	2,500	1.00	
12	U S Treasury Securities Fund	2/82	—	—*	5.2	—	1,500	NA	
28	Vanguard Money Market Trust-Federal Portfolio	7/81	—	—*	494.3	—	3,000	0.35	
These funds invest primarily in obligations exempt from federal income tax									
34	Active Assets Tax-Free Trust	7/81	—	—*	29.7	—	none	1.45	
53	Aetna Tax-Exempt Money Trust	2/82	—	—*	4.0	—	5,000	NA	
29	D L Babson Tax-Free Income Fund-Money Market	2/81	—	6.5	2.6	420.0	1,000	0.47	
93	Calvert Tax-Free Reserves-Money Market Portfolio	4/81	—	7.8	56.8	361.8	2,000	0.73	
85	Centennial Tax Exempt Trust	9/81	—	—*	12.1	—	none	0.75	
68	Chancellor Tax-Free Money Fund	8/79	—	7.6	76.5	33.7	2,500	0.91	
37	CMA Tax-Exempt Fund	1/81	—	7.0	842.0	387.0	none	0.62	
74	Daily Cash Tax Exempt Fund ²⁰	1/81	—	7.4	27.5	1,045.8	5,000	0.75	
57	Delaware Tax-Free Money Fund	9/81	—	—*	15.2	—	5,000	0.80	
68	Dreyfus Tax Exempt Money Market Fund	8/80	—	7.5	683.1	366.6	5,000	0.52	
61	Federated Tax-Free Trust	3/79	—	7.3	2,551.3	86.6	25,000	0.45	
64	Fidelity Tax-Exempt Money Market Trust	1/80	—	7.3	1,238.5	57.7	10,000	0.39	
44	Fourth St Tax Free Inc Trust-Money Mkt Portfolio	9/81	—	—*	21.1	—	2,500	0.41	
63	Franklin Tax-Exempt Money Fund	2/82	—	—*	16.2	—	5,000	NA	
88	IDS Tax-Free Money Fund	8/80	—	7.4	30.4	78.8	2,000	0.75	
8	INA Tax-Free Reserves	3/81	—	6.9	19.4	94.0	1,000	1.00	

operation for full period. †All funds are no load, however, special fees may apply in some cases. ¹⁹Formerly Steadman Federal Securities Fund. ²⁰Formerly Centennial Tax Exempt Fund. NA: Not available.

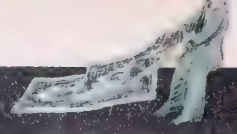
Portfolio average maturity (days)		Investment results						
		Date started	Latest 12 months		Total assets		Minimum initial investment	Annual expenses per \$100
			return from capital growth	return from income dividends	6/30/82 (millions)	% change '82 vs. '81		
	Standard & Poor's 500 stock average			6.2%				
	FORBES stock fund composite			4.6%				
	FORBES balanced fund composite			9.7%				
	FORBES bond and preferred stock fund composite			13.9%				
Money market funds†								
These funds invest primarily in obligations exempt from federal income tax								
45	InterCapital Tax-Free Daily Income Fund	2/81	—	7.5%	\$ 143.5	200.8%	\$ 5,000	\$0.74
80	Lexington Tax Free Daily Income Fund	10/77	—	7.7	17.9	198.3	1,000	0.71
62	MFS Tax-Exempt Money Market Trust	3/80	—	6.8	4.8	220.0	1,000	1.00
70	Municipal Cash Reserve Management	5/81	—	7.3	228.2	115.3	10,000	0.93
51	Nuveen Tax-Exempt Money Market Fund	4/81	—	7.5	347.0	443.0	25,000	0.43
104	T Rowe Price Tax-Exempt Money Fund	4/81	—	7.6	156.6	292.5	2,000	0.49
83	Scudder Tax Free Money Fund	1/80	—	7.0	131.9	11.1	1,000	0.71
47	Shearson's Muni-Fund	2/80	—	7.3	1,023.1	160.9	5,000	0.44
58	The Tax Free Money Fund	4/81	—	7.2	95.0	75.0	10,000	0.56
67	Vanguard Muni Bond-Money Market	5/80	—	7.1	125.8	167.7	3,000	0.47
234	Vanguard Muni Bond-Short Term	9/77	—	7.5	161.6	-7.8	3,000	0.47
These funds invest in various types of money market instruments								
36	Active Assets Money Trust	7/81	—	—	754.5	—	none	0.64
40	Aetna Money Trust	2/82	—	—	8.0	—	2,500	NA
29	Advisors Cash Reserve Fund	2/82	—	—	19.9	—	1,000	NA
25	Alliance Capital Reserves	7/78	—	14.3	1,504.7	19.0	none	0.79
30	Alpha Cash Management Fund-Money Market Port	10/81	—	—	12.5	—	1,000	1.00
23	American General Reserve Fund	7/74	—	14.9	413.7	93.4	1,000	0.82
28	American Liquid Trust	7/75	—	14.1	384.3	31.8	1,000	0.81
59	American National Money Market Fund	12/81	—	—	12.4	—	2,000	0.75
26	APPA Great Century Money Market Fund	6/81	—	14.2	3.7	68.2	1,000	0.25
13	Automated Cash Management Trust	5/82	—	—	14.9	—	100,000	NA
19	Axe-Houghton Money Market Fund	9/81	—	—	12.6	—	1,000	NA
33	D L Babson Money Market Fund	3/80	—	14.6	86.3	87.6	1,000	0.75
25	Birr, Wilson Money Fund	3/81	—	14.4	118.2	42.8	3,000	0.80
26	Boston Company Cash Management Fund	8/79	—	14.4	283.6	88.6	2,500	0.74
34	Alex Brown Cash Reserve Fund-Prime Series	8/81	—	—	607.0	—	1,500	0.59
25	Capital Cash Management Trust ²¹	7/74	—	14.1	156.4	181.3	1,000	0.76
36	Cash Equivalent Fund	3/79	—	15.1	4,094.0	61.7	1,000	0.62
26	Cash Management Trust of America	11/76	—	14.6	731.7	48.7	5,000	0.52
29	Cash Reserve Management	1/77	—	14.8	7,200.7	34.8	10,000	0.47
24	Centennial Money Market Trust	11/81	—	—	36.0	—	none	0.75
29	CG Money Market Fund	1/75	—	14.8	282.1	73.8	300	0.56
40	CMA Money Fund	9/77	—	14.6	13,908.3	86.4	none	0.51
26	Colonial Money Market Trust	1/81	—	14.1	13.8	89.0	3,000	0.95
24	Columbia Daily Income Company	11/74	—	14.2	942.9	42.9	1,000	0.75
30	Composite Cash Management	11/79	—	14.6	351.6	65.1	1,000	0.91
29	Connecticut Mutual Liquid Account	3/82	—	—	34.6	—	1,000	NA
23	Country Capital Money Market Fund	10/81	—	—	18.6	—	1,000	1.11
10	Cralin Money Market Fund-Money Market Portfolio	7/81	—	—	8.9	—	3,000	1.39
35	Current Interest	6/74	—	14.4	1,552.3	43.2	1,000	0.69
27	D&D Money Market Fund	12/81	—	—	21.8	—	2,500	0.92
22	Daily Cash Accumulation	7/78	—	14.7	5,432.1	31.1	2,500	0.54
33	Daily Income Fund	7/74	—	14.1	787.2	11.3	5,000	0.70
34	DBL Cash Fund-Money Market Portfolio	2/81	—	14.7	989.1	48.4	1,000	0.70
36	Delaware Cash Reserve	6/78	—	14.6	2,286.9	72.3	1,000	0.85
22	Dollar Reserves	6/80	—	14.5	112.8	139.5	1,000	1.10
*Fund not in operation for full period. †All funds are no load; however, special fees may apply in some cases. ²¹ Formerly Centennial Capital Cash Management Trust. NA: Not available.								

*Fund not in operation for full period. †All funds are no load; however, special fees may apply in some cases. ²¹Formerly Centennial Capital Cash Management Trust. NA: Not available.

1982 Fund Ratings

Portfolio average maturity (days)		Date started	Investment results Latest 12 months		Total assets		Minimum initial investment	Annual expenses per \$100
			return from capital growth	return from income dividends	6/30/82 (millions)	% change '82 vs. '81		
	Standard & Poor's 500 stock average			6.2%				
	FORBES stock fund composite			4.6%				
	FORBES balanced fund composite			9.7%				
	FORBES bond and preferred stock fund composite			13.9%				
Money market funds†								
These funds invest in various types of money market instruments								
43	Dreyfus Liquid Assets	1/74	—	14.8%	\$ 9,982.3	65.4%	\$ 2,500	\$0.64
25	Dreyfus Money Mkt Instru Money Mkt Series	4/75	—	14.8	2,437.8	29.9	50,000	0.50
26	Eaton & Howard Cash Management Fund	1/75	—	14.4	277.5	41.6	1,000	0.67
29	EGT Money Market Trust	4/81	—	14.4	153.3	161.2	5,000	0.95
33	Equitable Money Market Account	10/80	—	14.4	380.5	116.1	1,000	0.85
34	Fahnestock Daily Income Fund	6/81	—	14.3	157.7	436.4	1,000	0.84
18	FBL Money Market Fund	3/81	—	14.0	55.9	219.4	1,500	1.20
35	Fidelity Cash Reserves	5/79	—	14.7	3,866.1	83.8	1,000	0.99
35	Fidelity Daily Income Trust	5/74	—	14.7	3,710.1	12.6	10,000	0.58
31	Fidelity Money Market Trust Domestic Portfolio	5/79	—	14.7	1,228.3	154.7	250,000	0.42
23	Financial Daily Income Shares	3/76	—	14.6	308.9	37.1	1,000	0.55
32	First American Money Fund	4/82	—	—	22.5	—	1,000	0.80
22	First Investors Cash Management Fund	10/78	—	14.4	632.9	45.8	1,000	0.83
28	Franklin Money Fund	1/76	—	14.3	1,219.3	72.4	500	0.76
35	General Money Market Fund	2/82	—	—	83.3	—	2,500	1.00
28	Gradison Cash Reserves Trust	5/76	—	14.3	719.5	39.1	1,000	0.81
29	Great Lakes Money Fund	1/82	—	—	6.7	—	1,000	1.34
28	John Hancock Cash Management Trust	10/79	—	14.4	731.6	105.8	1,000	0.78
26	Wayne Hummer Money Fund—Money Mkt Port	4/82	—	—	52.3	—	3,000	1.00
34	Hutton AMA Cash Fund	3/82	—	—	9.0	—	10,000	NA
32	IDS Cash Management Fund	10/75	—	14.6	1,282.3	60.3	2,000	0.60
30	INA Cash Fund	11/79	—	14.7	748.5	64.9	1,000	0.81
40	InterCapital Liquid Asset Fund	9/75	—	14.7	9,397.3	32.1	5,000	0.41
32	E D Jones & Co Daily Passport Cash Trust	5/80	—	14.4	835.7	92.9	5,000	0.98
35	Kemper Money Market Fund	11/74	—	15.1	3,555.6	84.5	1,000	0.53
32	Legg Mason Cash Reserve Trust	10/78	—	14.5	337.7	49.6	5,000	0.82
18	Lehman Cash Management Fund	1/81	—	14.7	508.1	235.4	2,500	0.71
25	Lexington Money Market Trust	7/78	—	14.9	324.5	90.0	1,000	0.99
20	Liquid Capital Income Trust	11/74	—	14.4	2,117.4	27.4	1,000	0.59
25	Liquid Green Trust	11/80	—	14.3	134.8	228.8	1,000	0.96
18	Lord Abnett Cash Reserve Fund	7/79	—	14.3	384.9	31.1	1,000	0.81
20	Managed Cash Account Trust	1/82	—	—	14.0	—	1,000	1.00
25	Massachusetts Cash Management Trust-Prime Series	12/75	—	14.8	985.6	57.5	1,000	0.67
28	McDonald Money Market Fund	5/81	—	14.2	207.8	83.4	5,000	0.75
20	Merrill Lynch Institutional Fund	12/74	—	14.6	1,195.9	30.0	25,000	0.49
40	Merrill Lynch Ready Assets Trust	2/75	—	14.4	22,135.3	27.2	5,000	0.45
17	Midwest Income Trust-Cash Management Fund	1/82	—	—	35.4	—	1,000	0.88
29	MIF Nationwide Money Market Fund	3/80	—	14.4	452.5	109.7	2,500	0.74
30	Money Market Instruments Trust	3/82	—	—	134.9	—	1,000	NA
33	Money Market Management	1/74	—	14.4	524.0	30.5	1,000	0.89
19	Money Shares	1/78	—	13.4	17.6	-3.8	1,000	0.87
28	MoneyMart Assets	6/76	—	14.8	3,961.0	33.1	1,000	0.45
28	Morgan Keegan Daily Cash Trust	12/80	—	14.3	103.6	91.5	5,000	1.00
16	Mutual of Omaha Cash Reserve Fund	3/81	—	13.7	23.8	19.6	none	0.95
21	Mutual of Omaha Money Market Account	7/79	—	14.3	492.3	64.5	2,500	0.76
34	National Cash Reserves	4/82	—	—	26.1	—	1,000	NA
33	National Liquid Reserves	8/74	—	14.7	1,943.5	14.3	1,000	0.60

†Not in operation for full period. †All funds are no load; however, special fees may apply in some cases. NA: Not available.



Investment results

Portfolio average maturity (days)	Date started	Latest 12 months		Total assets		Minimum initial investment	Annual expenses per \$100
		return from capital growth	return from income dividends	6/30/82 (millions)	% change '82 vs. '81		
Standard & Poor's 500 stock average		-16.5%	6.2%				
FORBES stock fund composite		-15.5%	4.6%				
FORBES balanced fund composite		-9.1%	9.7%				
FORBES bond and preferred stock fund composite		-5.1%	13.9%				

Money market funds†

These funds invest in various types of money market instruments

25	NEL Cash Management Trust-Money Market Series	7/78	—	14.8%	\$ 785.9	77.2%	\$1,000	\$0.53
31	Newton Income Fund-Money Fund Portfolio	10/81	—	—	8.8	—	2,000	1.00
22	Offerman Money Market Fund	6/81	—	14.3	13.6	580.0	2,000	0.94
30	Oppenheimer Money Market Fund	4/74	—	14.7	1,640.9	28.4	1,000	0.60
33	Paine Webber CASHFUND	5/78	—	14.6	6,410.9	53.6	5,000	0.51
24	Pennsylvania Money Fund	10/81	—	—*	8.4	—	500	1.00
25	Phoenix-Chase Money Market Fund	7/80	—	14.7	60.4	223.0	1,000	0.75
27	Plimoney Fund	3/80	—	14.6	66.6	86.0	1,000	0.93
33	T Rowe Price Prime Reserve Fund	3/76	—	14.7	3,466.7	42.5	2,000	0.59
40	Putnam Daily Dividend Trust	9/76	—	14.6	369.7	24.4	1,000	0.75
29	Quaker Cash Reserves	10/81	—	—*	3.7	—	1,000	0.99
25	The Reserve Fund-Primary Portfolio	11/71	—	14.4	2,927.9	3.1	1,000	0.82
15	L F Rothschild Earnings and Liquidity	4/82	—	—*	251.6	—	2,500	0.70
20	SAFECO Money Market Mutual Fund	4/82	—	—*	7.1	—	1,000	0.50
25	St Paul Money Fund	11/79	—	14.3	189.4	35.4	3,000	0.80
16	Santa Fe Cash Reserves	2/82	—	—*	12.0	—	1,000	NA
33	Sudder Cash Investment Trust	7/76	—	14.7	1,295.6	34.0	1,000	0.66
15	The Securities Groups Money Fund	6/81	—	14.5	26.9	3,742.9	10,000	1.00
13	Security Cash Fund	10/80	—	14.0	98.8	71.8	1,000	1.00
29	Selected Money Market Fund-General Portfolio	10/77	—	14.3	69.9	23.7	1,000	1.00
20	Seligman Cash Management Fund ²²	1/77	—	14.7	864.0	36.0	1,000	0.85
32	Sentinel Cash Management Fund	10/81	—	—*	25.9	—	1,000	0.73
29	Sentry Cash Management Fund	6/81	—	14.2	51.5	255.2	2,000	0.98
24	Shearson Daily Dividend	6/79	—	14.7	5,826.1	45.7	5,000	0.63
32	Short Term Income Fund	1/80	—	14.2	278.0	16.2	1,000	0.70
22	Short-Term Yield Securities	5/78	—	14.0	46.0	-53.1	1,250	0.89
13	Sigma Money Fund	9/80	—	14.1	14.8	60.9	500	0.80
25	Standby Reserve Fund	11/81	—	—*	209.1	—	2,000	0.64
15	State Bond Cash Management Fund	2/82	—	—*	4.4	—	1,000	1.00
32	SteinRoe Cash Reserves	10/76	—	14.6	914.4	49.2	2,500	0.68
31	SUTRO Money Market Fund	2/82	—	—*	147.9	—	5,000	NA
16	The Texas Money Fund	5/81	—	14.7	21.2	715.4	2,000	0.82
25	Transamerica Cash Reserve	8/80	—	14.8	353.5	90.1	1,000	0.52
31	Trust for Cash Reserves	2/80	—	14.4	221.2	47.9	1,000	0.94
30	Tucker Anthony Cash Management Fund	4/81	—	14.0	359.8	114.0	2,500	0.78
32	United Cash Management	8/79	—	14.7	544.8	60.8	1,000	1.03
25	USAA Mutual Fund-Money Market Fund	2/81	—	14.4	157.7	183.1	2,500	0.96
24	The Value Line Cash Fund	4/79	—	15.1	634.7	150.6	1,000	0.69
36	Vanguard Money Market Trust-Prime Portfolio	6/75	—	14.6	1,205.0	61.9	3,000	0.35
29	Webster Cash Reserve	8/79	—	14.6	1,382.6	44.8	5,000	0.63
29	Ziegler Money Market Trust	4/81	—	14.4	139.7	417.4	3,000	0.96

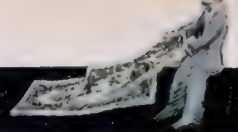
Municipal bond funds

Maximum
sales
charge

Alpha Tax-Exempt Bond Fund	1/77	-12.0%	10.8%	\$ 2.9	-6.5%	none	\$1.10
American General Municipal Bond Fund	11/76	-8.6	10.8	23.3	9.4	4.75%	0.80

*Fund not in operation for full period. ²²Formerly Union Cash Management Fund. NA: Not available. †All funds are no load; however, special fees may apply in some cases.

1982 Fund Ratings



Investment results							
Date started	Latest 12 months		Total assets 6/30/82 (millions)	% change '82 vs. '81	Maximum sales charge	Annual expenses per \$100	
	return from capital growth	return from income dividends					
Standard & Poor's 500 stock average	-16.5%	6.2%					
FORBES stock fund composite	-15.5%	4.6%					
FORBES balanced fund composite	-9.1%	9.7%					
FORBES bond and preferred stock fund composite	-5.1%	13.9%					
Municipal bond funds							
D L Babson Tax-Free Income Fund-Long Term	2/80	-11.5%	10.8%	\$ 3.5	66.7%	none	\$0.75
D L Babson Tax-Free Income Fund-Short Term	2/80	-0.2	6.6	2.3	27.8	none	0.75
Bullock Tax-Free Shares	2/77	-10.0	10.7	23.3	14.8	4.75%	1.09
Calvert Tax-Free Reserves-Limited Term Portfolio	4/81	-0.3	9.0	9.4	683.3	none	0.47
CG Municipal Bond Fund	3/77	-9.0	11.1	69.5	46.6	7.50	0.77
Chancellor High Yield Municipals	6/80	-10.7	11.6	57.3	54.9	4.50	0.72
Composite Tax-Exempt Bond Fund	1/77	-8.0	10.0	1.9	-9.5	none	1.22
DMC Tax-Free Income Trust-Pennsylvania	3/77	-8.4	10.2	23.7	0.9	4.50	1.01
Dreyfus Tax Exempt Bond Fund	10/76	-8.8	10.7	852.2	5.9	none	0.76
Federated Tax-Free Income Fund	10/76	-8.7	9.9	36.1	-11.3	none	1.47
Fidelity High Yield Municipals	12/77	-8.2	11.7	206.0	11.9	none	0.67
Fidelity Limited Term Municipals	4/77	-5.7	9.2	54.8	-4.4	none	0.83
Fidelity Municipal Bond Fund	8/76	-9.9	11.2	400.9	-3.8	none	0.60
Financial Tax-Free Income Shares	8/81	—	—	21.3	—	none	0.45
First Investors Tax Exempt Fund	8/77	-9.8	10.1	61.3	88.6	7.25	1.50
Fourth St Tax Free Inc Trust-Ltd Term Portfolio	9/81	—	—	4.1	—	none	0.43
Franklin Tax-Free Income Fund	2/77	-8.3	11.5	71.4	920.0	4.00	0.63
John Hancock Tax-Exempt Income Trust	1/77	-7.8	10.1	34.8	82.2	8.00	1.00
IDS High Yield Tax-Exempt Fund	5/79	-9.7	11.6	381.2	77.1	4.00	0.63
IDS Tax-Exempt Bond Fund	12/76	-9.3	11.0	187.8	26.7	4.00	0.63
InterCapital Tax Exempt Securities	3/80	-9.3	11.1	45.5	-0.9	4.00	0.90
Kemper Municipal Bond Fund	4/76	-11.7	11.5	166.1	-4.9	4.75	0.61
Keystone Tax Free Fund	1/78	-7.8	11.0	21.7	42.8	4.00	0.97
Merrill Lynch Muni Bd Fd High Yield Portfolio	11/79	-8.8	12.0	87.8	23.5	4.00	0.75
Merrill Lynch Muni Bd Fd Insured Portfolio	11/77	-10.7	11.1	105.6	28.8	4.00	0.91
Merrill Lynch Muni Bd Fd Ltd Maturity Port	11/79	-0.6	8.3	194.0	-13.5	1.00	0.53
MFS Managed Municipal Bond Trust	10/76	-5.4	10.7	104.4	15.5	4.75	0.93
Mutual of Omaha Tax-Free Income Fund	1/77	-9.6	11.2	37.0	27.6	8.00	0.89
Natl Securities Tax Exempt Bonds	11/76	-9.9	10.4	16.7	16.8	6.00	0.80
NEL Tax Exempt Bond Fund	5/77	-5.8	12.1	19.9	74.6	4.50	0.79
New York Muni Fund	4/81	-4.0	9.8	6.9	527.3	none	1.41
Nuveen Municipal Bond Fund	11/76	-10.0	10.3	154.8	16.5	none	0.75
Oppenheimer Tax-Free Bond Fund	10/76	-9.6	10.1	28.6	-7.4	4.50	1.02
T Rowe Price Tax-Free Income Fund	11/76	-5.9	10.4	331.1	9.0	none	0.71
Putnam Tax Exempt Income Fund	11/76	-7.1	11.2	37.3	13.0	4.75	0.76
SAFECO Municipal Bond Fund	11/81	—	—	6.0	—	none	0.86
Scudder Managed Municipal Bonds	10/76	-9.5	10.8	153.8	23.9	none	0.69
Selected Tax-Exempt Bond Fund	10/77	-10.0	10.6	2.2	4.8	none	0.49
Shearson Managed Municipals	3/81	-7.0	11.1	50.8	52.1	5.00	1.09
Sigma Tax-Free Bond Fund	8/79	-12.6	9.5	2.1	133.3	4.75	1.50
SteinRoe Tax-Exempt Bond Fund	2/77	-7.9	11.0	67.9	49.2	none	0.80
Tax-Exempt Bond Fund of America	10/79	-8.5	10.1	22.8	59.4	4.75	1.00
United Municipal Bond Fund	11/76	-9.5	11.1	74.2	100.5	4.00	0.86
USAA Tax-Exempt Fund-High Yield	3/82	—	—	6.9	—	none	1.29
USAA Tax-Exempt Fund-Intermediate Term	3/82	—	—	4.7	—	none	1.24
USAA Tax-Exempt Fund-Short Term	3/82	—	—	10.3	—	none	1.26
Vance, Sanders Municipal Bond Fund	3/78	-7.1	9.6	7.4	60.9	3.75	0.60
Vanguard Muni Bond-High Yield	12/78	-11.0	11.7	51.6	31.3	none	0.47
Vanguard Muni Bond-Intermediate Term	9/77	-7.6	9.5	36.1	34.7	none	0.47
Vanguard Muni Bond-Long Term	9/77	-10.8	11.1	88.7	21.3	none	0.47

all figures are annualized

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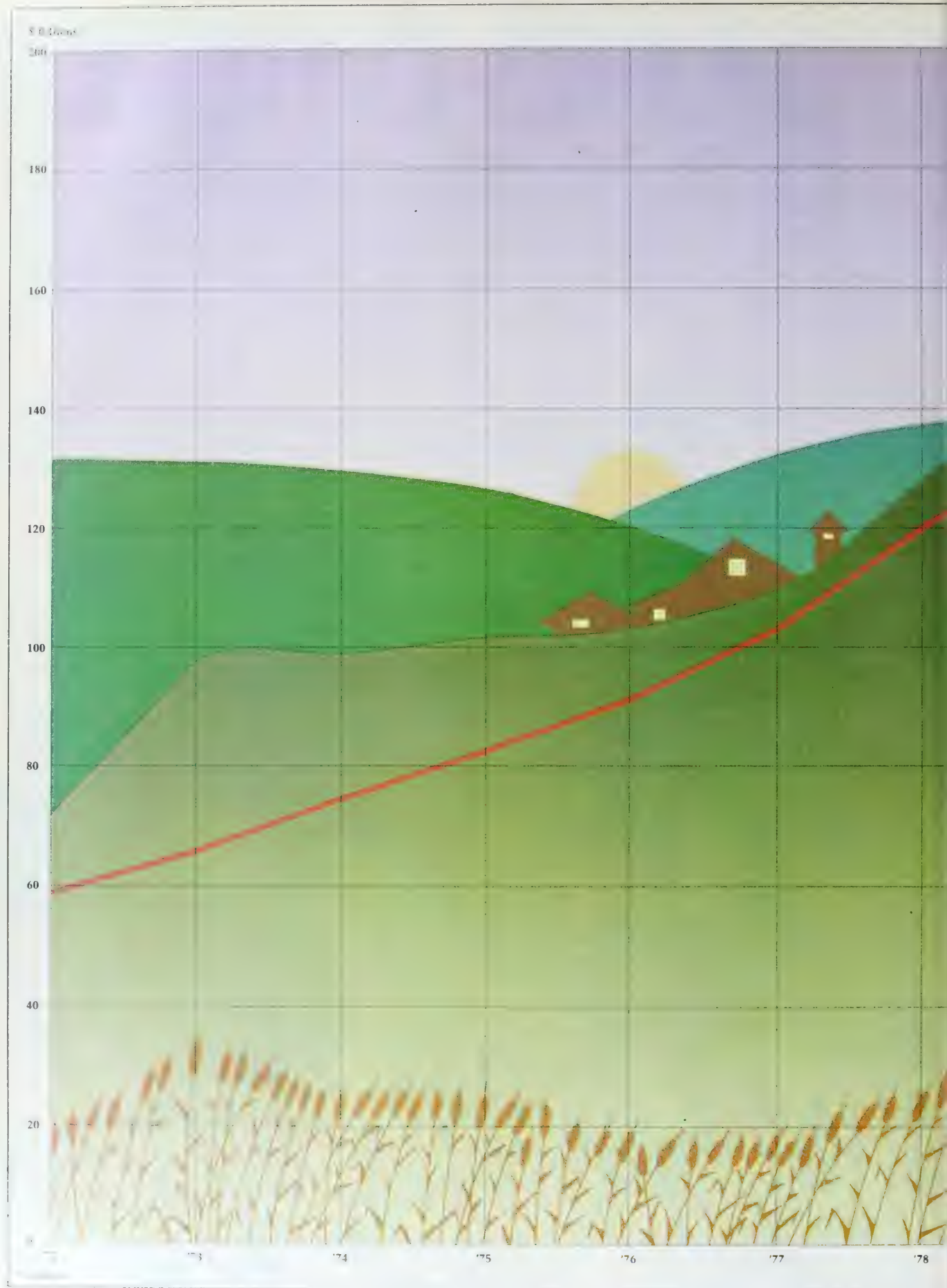
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You can blame the auto and steel depressions on low productivity and inadequate investment. But things are almost as bad in agriculture, where productivity and investment have been superb. How come?

Please come back, W.J. Bryan

By Stephen Kindel
and Laura Saunders

WILLIAM JENNINGS BRYAN, where are you now that the farmers really need you? Just as surely as farmers were crucified by five years of tight credit and hard money following the Panic of 1893, so are they now being driven to the wall. But while the discovery of gold in the Klondike made Bryan's "easy money" proposals less relevant, there's no pot of gold waiting for the farmer this time. There aren't even any rainbows.

Like most of the rest of us, farmers suffer from high interest rates and from selling prices that rise more slowly than costs. But unlike, say, autos and steel, agriculture has suffered neither from inadequate investment nor from low productivity. On the contrary, in both investment and productivity, U.S. agriculture leads the world. The troubles of agriculture won't end if and when interest rates finally go down. Nor can they be solved by additional mechanization.

All those glorious statistics about the productivity of U.S. agriculture, it seems, have become self-defeating. The American farmer has been so successful in substituting capital for labor, the average farmer now produces enough to feed 78 people. Result: tremendous overproduction. Wheat that costs \$6.32 a bushel to produce fetches no more than \$3.41 on the commodity markets. Every major commodity crop—wheat, corn, cotton, sugar and soy-

Honor without profits

The fact is, the American farmer is far too productive for his own good. Over the last decade, his receipts have grown like the Iowa corn. But net farm income has been stagnant for a decade, while total farmers' debt has more than tripled.



beans—is selling far below farmers' real production costs.

All through the Seventies, farmers expanded production furiously, increasing the amount of land under cultivation from 289 million acres in 1972 to 413 million today. Farmers increased their expenditures on new machinery, better seeds and more fertilizer—and more storage to hold the bumper crops they couldn't sell.

No, farmers weren't responding to some humanitarian urge to feed a hungry world; they expanded because the government urged them to. OPEC's 1973 decision to hike oil prices created an imperative to sell more abroad, to earn dollars to pay for all that imported oil. It was our "food weapon" against their "oil weapon."

Then-Secretary of Agriculture Earl Butz traveled through the Farm Belt like a circuit-riding preacher, sending out the government's good word: Plant fencepost-to-fencepost, and the government will lend you the money to expand and simultaneously lend to sound credit risks—meaning those European economies profiting from a weak dollar—to buy U.S. agricultural commodities.

That policy seemed to pay off all through the Seventies. Land under cultivation increased 43%, and the number of farms actually increased slightly from a 50-year decline. Yet, despite rising gross farm income for the nine years beginning in 1973, net farm income declined or stagnated in seven of those years. In the last three years alone, since 1979, net income has slumped 50%, from \$32.3 billion to a projected \$16.5 billion for this year.

It was a classic profits squeeze: Farmers were selling more and more and earning less and less. This year's net income doesn't even begin to cover the interest payments on all those agricultural loans; interest on farm loans this year will cost U.S. farmers \$22 billion, and total farm indebtedness, which stands at \$194 billion, is an unprecedented 12 times net farm income.

Not surprisingly, the Farmers Home Administration (FmHA), the government's chief source of agricultural loans, is jittery about the future. An FmHA notice of Aug. 25, 1981, reflecting the situation of high farm indebtedness, set a goal of reducing almost 25,000 delinquent loans by Mar. 31 of this year, and another 70,000 farm loans by the end of fiscal 1983. While this does not mean a wave of bankruptcies—the farm bankruptcy rate is still only 0.6% for FmHA loans—it may well mean a large number of involuntary liquidations and farm sales.

FmHA's sudden decision to practice good loan management adds to the farmer's troubles. Almost 12% of the 2.4 million U.S. farmers are in hock to the FmHA, and delinquencies and technical defaults were already running at 60% when the loan reduction program was implemented. Obviously, farmers feel a certain amount of resentment toward the government. Oliver Hansen, president of the Liberty Trust & Savings Bank, a large Durant, Iowa-based agricultural lender, says, "I think that the government, the

agricultural economists and such really led the farmer down the primrose path."

If he had been completely candid Hansen might have added: "... and the banks." When times were good, the banks were pushing loans at the farmers. But just at the right moment many of the banks shifted their weaker loans to the FmHA.

In one sense, then, farmers are suffering withdrawal pains: Like homeowners, they became addicted to cheap and easy credit; like homeowners, they are being severely punished with the end of cheap and easy credit. But this is an adjustment problem, a cyclical problem. Farming unfortunately suffers as well from a long-range, secular problem, one with no easy cure.

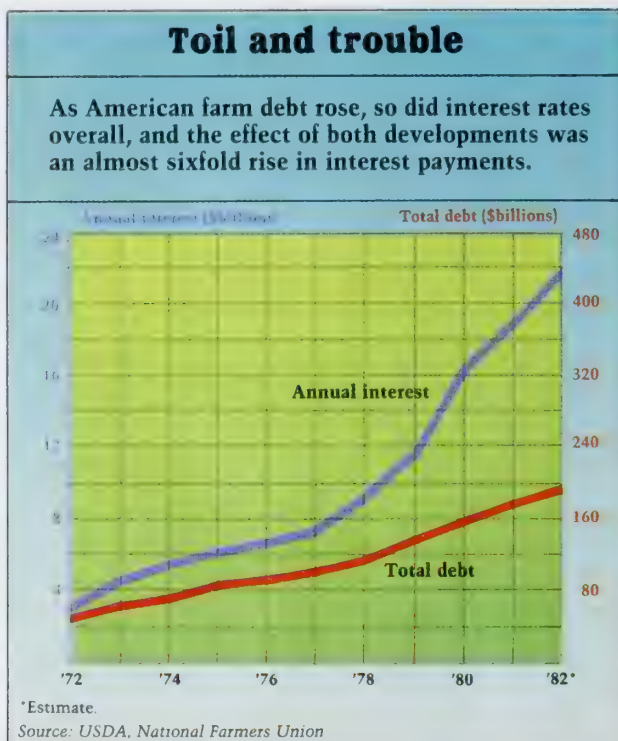
There is a fundamental difference between farming and other industries. In most industries overproduction tends to be self-correcting. Less efficient plants close down, weak competitors pull out of the market. Supply and demand come back into balance and, gradually, prices and profitability recover. But no such rationality exists in

agriculture, where there prevails the closest thing to perfect competition that exists in the world today. The largest individual farmer, Idaho's J.R. Simplot, may have a huge share of the potato market, but his company's \$1 billion in annual sales depends on the success of his wheat and cattle operations. And Simplot's sales are but a blip in the face of \$170 billion in total U.S. farm sales. Large combines are in the same boat: Land O' Lakes, Inc., which is owned by 350,000 farmers, sells produce worth \$4 billion. But that's still a mere 2.3% of the total market. Even an agribusiness leader such as Tenneco has a market share that is less than 1% of total farm sales. Combined, the largest agricultural interests can't muster 5% of farming's gross. In no other industrial category is there such a lack

of concentration and market share for the leading firms.

Compounding the problem is the fact that while most of the 2.4 million U.S. farmers are small businessmen, they have to compete not only within their own limited geographic area but also against all other farmers producing like crops around the world. Other nations, sensitive to the political clout their farmers wield, routinely subsidize overproduction. Let an agricultural minister in the EEC suggest that there is something wrong with piling up butter in warehouses, and the farmers of Normandy take to the streets. Let someone suggest that Italy doesn't really need all that Chianti, and the toilers of the vineyards riot in Tuscany.

Naturally, these subsidies make it tough for U.S. farmers. But it is hard to blame Europeans for wanting to maintain an independent source of food, given the U.S.' sorry record as a supplier. Japan, which used to be America's prime export market for soybeans, spent hundreds of millions of dollars helping Brazil to launch a competing industry after the U.S. clamped down on soybean sales in



1973 to protect farmers against speculative pressures on their crops (see p. 118). The Soviet Union, which during the early days of detente made up close to 70% of its grain deficits through U.S. purchases, now buys less than 30% of its grain from the U.S. and shows as little enthusiasm for a new long-term grain agreement as does the Reagan Administration. After enduring the Carter grain embargo following their invasion of Afghanistan, the Soviets found that they could easily make up the difference from other suppliers, such as Argentina. In the end the embargo did not hurt the Soviets, and the foreign policy implications of the Soviet-Argentine relationship, especially in light of the Falkland Islands crisis, are causing nightmares for the State Department.

As a result, while the worldwide grain surplus has remained at 16% of total production since 1979, the U.S.' share of the surplus has jumped dramatically, from less than 20% to more than 37%. This is the highest level of overhang in years, and it's going to get worse: Of the approximately 35 million metric tons of grain that will be added to world stocks this year, no less than 33 million will come from the U.S.

For U.S. farmers that means a long-term buyer's market that is likely to deteriorate. Not only are foreign competi-

tors subsidizing their farmers, they are encouraging them to join their U.S. counterparts on a binge of overproduction. Canada has expanded wheat production by 20% in just three years; Australian acreage is up 10% in two years; Argentina's acreage has expanded 15% during the same period. Moreover, these nations, as well as the EEC, pay their growers under an export subsidy program that blesses farmers with bonuses of up to \$80 per ton for wheat that goes out of the country. Common Market wheat is now so heavily subsidized that it is ruining local agriculture in such nations as Chile, whose own surplus wheat cannot be disposed of in the face of EEC exports.

While the U.S. provides commodity subsidies that are about as large as the EEC's, in the \$9 billion-to-\$11 billion range, notably in the dairy industry, the surplus is not dumped on the international market. Instead, the crops are stored, off market, until prices rise. But the high cost of money and huge surpluses that don't go away from year to year are straining the ability of elevator operators to manage the crops they buy. As a result there has been a wave of elevator bankruptcies that have added to farmers' jitters.

To date, the Reagan Administration has approached the farm problem with extreme caution. Dairy farmers

Dust in the wind

Hidden within the crisis that farmers are facing is a possibly greater problem for the land: It is eroding at a worrisome rate. For the last three years, dust storms larger than anything seen since the Dust Bowl of the Thirties have been swirling all along the western edge of the Great Plains. The Dust Bowl was largely confined to panhandle Texas, Oklahoma and southern Colorado. But listen to Donald Moss, a USDA Soil Conservation Service officer based in Denver: "The modern dust thing goes from Canada right down to the middle of Texas."

To blame is the indiscriminate ripping up of thin prairie soils by hard-pressed dryland farmers who have tried to plant their way out of trouble. Often, virgin prairie will provide one or two years of spectacular yields, which will then rapidly decline even with the application of fertilizer. "It's become a modern version of slash-and-burn jungle agriculture," says Neil Sampson, executive vice president of the National Association of Conservation Districts, who thinks that the consequence will be a great deal of land lost to farming. "The net result could be doubling of food prices in real dollars in the next decade."

While Sampson's concern about food shortages may sound strange in an era of extreme overabundance, there is long-range cause for concern. When farmland in the East was being paved over with suburbs, nobody really paid much attention because production was shifting to such agriculturally rich areas as California's

Imperial and San Joaquin valleys. But the West's prime agricultural lands are now going under asphalt, too. Weld County, Colo., number two in agricultural output in the U.S., has lost 189,000 acres of its best farmland over the last decade. The situation in Fresno County, Calif., the number one agricultural producer, is even worse. Since 1969 Fresno County has lost almost 400,000 of its 2 million total farm acres.

Land lost to production this way, while it lowers the total stock of available land, does not help remaining farmers. That's because the land that is left is increasingly marginal, requiring significantly greater commitments of water and fertilizer to keep production per acre level. Furthermore, it is costly to keep such land from blowing away or running off in a rainstorm, so that conservation is an afterthought, even when profits are up. Thus, farmers in areas such as western Tennessee and

northern Mississippi, where heavy rainfalls are common, have recently endured topsoil loss rates as high as 100 tons per acre, high enough to put most marginal land out of production well before the year 2000.

Is anyone paying attention? Hardly anyone. Robert Cashdollar, staff director of the House Agriculture Subcommittee on Conservation, Credit and Rural Development, shakes his head. "Right now," he says gloomily, "economic conditions are overshadowing the government's commitment to erosion control. Until things get a lot better for farmers, you can bet that conservation will be ignored." —S.K.



Dust rises above Colorado grain elevators

Erosion could double food prices in a decade.



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have continued to benefit from strong milk price supports, so that herd sizes have actually risen. But Secretary of Agriculture John Block has served notice on even this relatively fortunate group of farmers that the easy times are over. Milk price supports, now \$13.10 per hundredweight, will drop to \$12 per hundredweight in 1983 unless farmers substantially cull their herds this fall. Block has also gone on record as opposing any emergency bailout of farm debt, and the FmHA has indicated a determination to go ahead with its loan management program. Says Orson Swindle, the Georgia state FmHA director, "The last five years have shown that you can't borrow your way out of debt."

When pressed, Administration spokesmen maintain that U.S. agriculture really has only two choices: reducing the size of the agricultural base or engaging in bitter trade wars to force Canada, Argentina and the Common Market into fairer competition. Trouble is, trade wars lead to retaliation. Administration efforts to shrink the amount of land under cultivation have so far met with only mixed success: The Agriculture Department's set-aside program, which provides benefits to farmers who take 15% of their land out of production, is taking only the least productive land out of circulation, so that the number of bushels of wheat produced actually continues to rise.

Alas. There is no quick or easy way out—no more than for the sickness of the steel and auto industries or for the economic ills of the big cities. Genetic engineering? Potentially this can increase yields and decrease the amount of expensive ammonia fertilizer that farmers have to spread on their land. But it is about a decade away, according to experts. Other technologies, such as hydroponics, are likely to remain the stuff of Walt Disney EPCOT displays as long as farmers lack the capital to change the way they farm.

Even irrigation is becoming dangerously expensive, as demand for water in Western states with rising urban populations, such as California and Arizona, creates new competition for scarce resources and pushes up production prices still more. The problem, as Bruce Anderson, a Glenburn, N. Dak. wheat farmer, sees it, is not enough operating room. "In a normal year," he says, "a farmer could expect to make a few mistakes. If you're going to learn, you've got to try something a little different each year. If a new chemical comes out, you don't want to try it on your whole farm right away, and maybe the first time, you goof up a whole field. But when you know at the start that any mistake is going to lose you even more money, you have to go with what you know, and that kills your competitive chances even more."

Even practicing dire economies can't help when prices remain hopelessly low. Deferring the purchase of new farm equipment not only cripples International Harvester and batters John Deere, it may also kill off large numbers of farmers over the next two or three years. Says Anderson:

"I can't afford to update my machinery. I can't even afford to go to auctions of other farmers and pick up their equipment on the cheap. What's going to happen when my machinery goes kaput all at once?"

Finally, there is the question of the land itself. While farmers are often likened to small businessmen, they are really more akin to small investors. And everybody remembers what happened to the small investor. When he realized his inability to compete against the tides of larger market forces in the late Sixties, the small investor opted out of the stock market in a big way, redeploying his assets into an ever-proliferating number of investment options. But where can the farmers go?

At bottom the problem is very simple: American agriculture expanded because it believed its efficiency, its high ratio of capital to labor, and the fertility and vastness of the American plains made it the logical supplier of food to the growing armies of the hungry millions. So the supply materialized but the effective demand never did. The overcapacity that resulted is not in itself unique; overcapa-

city exists in most major industries today. But it's a lot harder to close down a farm than to close down an auto plant or a steel mill.

"People say that the farmers who have owned their land for 20 years will survive," says Vernon Franke, a Colorado wheat farmer, "but heck, they're dying off at the same rate that the young farmers are being forced off the land. I just hope I can survive long enough for my children to be able to farm if they want to. I don't know if it will be possible."

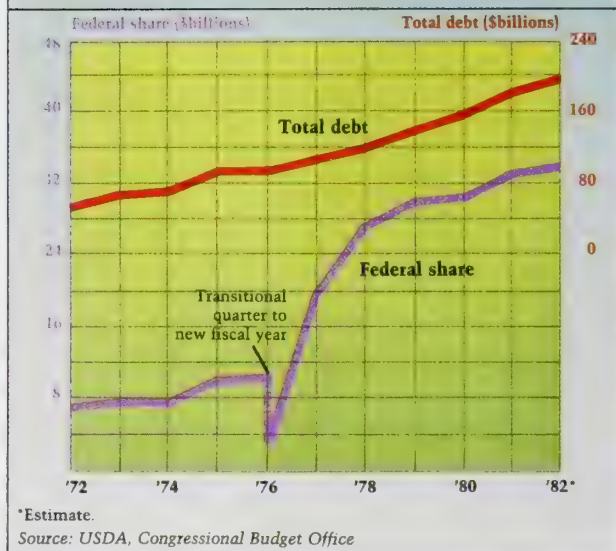
Is there any way out? Most government programs have only made the situation worse, in addition to inflaming inflation. What might work, however, is a government buyback of surplus lands for a land bank. Although it smacks of government control, government ownership of large tracts of

agricultural land makes some sense. In times of poor prices, federal land ownership prevents the marginal farmer from planting his way out of debt by buying more land; in times of soaring demand or national need, the government can rent land back to farmers who own the contiguous property so that it would cost farmers relatively little to add production when demand warranted it.

A land bank makes sense for one overwhelming reason: Today's glut will disappear in the face of rising world populations, so that more food will be needed just a bit down the road. There will be 27 million more Americans by the year 2000, which is only 18 years away. And there will be almost 2 billion more people in the world by then. If ever there was a case for mothballing capacity, it is in farming today. But despite the sense that limited government land ownership makes, don't hold your breath waiting for it. As one economist at the Office of Management & Budget puts it, "As far as major changes coming over the way things are done, I don't see it. We'll just kind of limp along. This is the government, remember?" ■

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A case of "Brazil fever" and an end to U.S. domination of the world soybean trade.



Brazil now earns as much from soybeans as from coffee. In that startling fact is the story of a great crop migration—and a moral for U.S. farm policy makers.

The Brazilian connection

By Norman Gall

IT'S A SMALL WORLD, after all," runs the cheerful ditty. As one measure of just how small the world has become—and how little cheer there is in that movement for U.S. farmers—consider the connection between a single action taken by an American President to deal with a domestic problem in 1973 and the world price of soybeans in 1982.

In 1973, with the cost of living soaring, President Nixon announced an embargo on the export of soybeans from the U.S. Shortly after the embargo—"We must put the American consumer first," Nixon said—the Marubeni Trading Company of Japan bought 50,000 acres of reddish-brown soil in the Dourados region of what is now the state of South Mato Grosso on the Brazilian frontier. The cheap and fertile land in Dourados is part of

the Paraná River basin of *terra roxa* soils, one of the last great swaths of prime farmland in the world still to be brought under mass cultivation. It lies beneath the virgin forests of eastern Paraguay and of the Brazilian state of Paraná and stretches southward to the Argentine pampa. As Marubeni had hoped, soybeans thrived there.

Soybean production in the Dourados region alone has shot from 100,000 tons in 1973 to 1.4 million tons this year, with yields comparable to farms in Iowa and central Illinois. Total output from the Paraná basin countries in the same period rose from 3.5 million to 21 million tons, one-third of record U.S. production, with the potential for reaching well beyond 80 million tons within a decade or two.

Nixon in 1973 was simply trying to check the inflationary pressure caused by fast-rising world demand

for soybean meal, a key animal feed, on U.S. domestic livestock prices. What he succeeded in doing was bringing to a peak the "Brazil fever" among Japanese businessmen and government officials, who saw Brazil as a rich market for their capital goods and as a veritable cornucopia for farm and mineral commodities. That in turn was to hasten the end of U.S. domination of the world soybean trade. Although U.S. production grew handsomely too—its soybean exports increased by 33% between 1974 and 1981—the U.S.' share of the world soybean trade had dropped from more than 90% to 67% since the Nixon embargo.

Just as U.S. wheat farmers moved steadily westward in the 19th century, soybean growers have been following northward and westward paths along the Brazilian frontier toward the equator, along a great arc extending from the southernmost state of Rio Grande do Sul through Paraná, Mato Grosso, Goiás and into Amazonia. The spread of large-scale soybean cultivation over the past four decades, from northeast China—where soybeans were domesticated more than 12,000 years ago—to the Western Hemisphere, is proving to be one of history's great crop migrations—perhaps as important as the introduction of European wheat to the New World, or Andean potatoes to Europe.

The boom in soybeans, the leader among all U.S. exports (\$8 billion yearly, including meal and oil), helped save the U.S. from a balance of payments disaster in the 1970s, as swelling oil imports and the declining competitiveness of U.S. industry contin-

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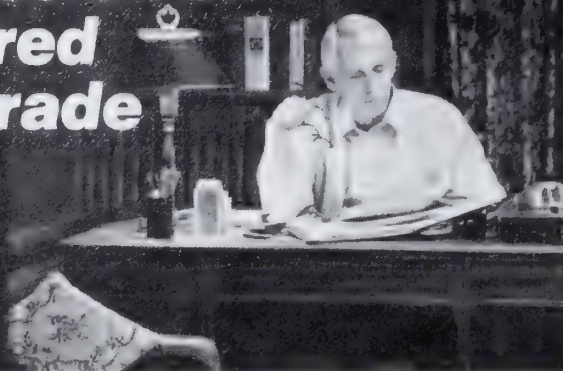
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ually drained the strength of the dollar. Today, however, while American farmers sweat out their debts and fret about low prices for their 1982 bumper crop, they look uneasily overseas at contracting export markets and proliferating foreign producers. Countries such as India, Mexico, Egypt, Colombia, Bulgaria and Rumania are now significant soybean producers. None of these is more important than Brazil, which will earn as much this year from soybean exports as from coffee.

The lesson from these developments is that U.S. agriculture, while unrivaled today in its sophisticated production, marketing and research, is not necessarily in permanent command of world markets. A century ago the British iron and textile industries seemed secure. Just 15 years ago the U.S. auto industry seemed safe enough. Today there are hungrier, more desperate competitors who may

**Today there are hungrier,
more desperate competitors
who may not be as efficient as
U.S. grain producers, but who
can raise havoc in world mar-
kets just the same.**

not be as efficient as U.S. producers, but who can raise havoc in world markets all the same. In the jargon of the grain trade, the U.S. is called the "residual" soybean supplier, which means that the U.S. holds stocks after all other exporters empty their grain elevators for any price they can get.

Listen to Jack Schultz, who wrote a thesis on Brazilian soybeans as a student at the Harvard Business School and wound up buying land in the Dourados region in 1977. "Brazil's comparative advantage is that direct production costs are lower than U.S. cost," says Schultz, who hails from southern Illinois and has been farming 1,100 hectares (2,750 acres) of soybeans and wheat, some of it with other Illinois farmers as absentee partners. "Land, labor and credit were extremely cheap when I came to Dourados. Lime and fertilizers cost two or three times as much as in Illinois. But the Brazilian government was giving no-interest loans to buy them. Inflation at the time was running 30%. For the system to be competitive, something *has* to make up for Brazil's high transportation costs, because everything moves by truck, while in the U.S. nearly everything moves by railroad or river barge."

Subsidies have been shrinking fast



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lately, under great pressure from the Brazilian government's bankers, but they remain at every stage of the production and marketing process. As of this year, a big farmer can still get half of his crop costs financed at subsidized interest (48% annually, or two-fifths of the expected 1982 inflation). Just two years ago cheap financing was available for all of his costs. But as a result of Brazil's complex system of export incentives and drawbacks, crushing mills in Paraná today can import soybeans from Iowa, turn them into oil and meal, and then export the products in competition with beans crushed along the Mississippi.

For several reasons, it is hard to tell how much longer such razzle-dazzle deals can go on amid the basic changes now taking place in the world grain trade.

First, the European Common Market (EEC) has emerged as a major exporter of grain and dairy products, dumping heavily subsidized commodities on world markets. Exports to Western European markets had been the core of the grain trade for more than a century. Now, the EEC's common agricultural policy, subsidizing high-cost European farmers, has made Europe more than self-sufficient in wheat and other grains.

The second major change in world grain markets over the past decade is the emergence of the Soviet bloc—initially as a big cash importer of

grains, lately as a hungry, cash-short buyer getting generous discounts and credit terms from sellers in a buyer's market. During the 1980-81 grain embargo imposed by President Carter in the wake of the Soviet invasion of Afghanistan, the U.S.S.R. had to pay a 25% cash premium over the Chicago



Marubeni manager Kenji Sugimoto
Yields comparable to Iowa's.

price for Argentina's grain. In 1982—during the Falklands crisis—the Russians were able to dicker with both U.S. and Argentine suppliers for the best credit terms.

Finally, the world market for soybean products is a complex mechanism involving soya oil and meal, each in separate competition with many other commodities, both for human and livestock consumption and for household and industrial uses. In rich countries, generally speaking, soya meal is consumed mostly as protein-rich feed for livestock. In poorer countries, soya oil is consumed mainly as cooking oil.

Historically, the bulk of the world soybean trade—especially in grains

and meals—has been concentrated in a few exporters and a few buyers. Inevitably, when a major new source of supply appears (such as South America's Paraná River basin), or a major consumer cannot afford to pay (as in the case of Eastern Europe), the market is profoundly altered. In periods of oversupply or underconsumption, the governments of exporting countries must weigh the costs of maintaining stock or dumping them, of sustaining uneconomic producers or taking losses at the margin.

In the world soybean market, then, on which the U.S. economy heavily depends, the U.S. may find itself in a situation like that of Brazil at the beginning of this century. Brazil so dominated the coffee trade that its exports supplied three-fourths of world demand. In those decades Brazil borrowed heavily abroad and incurred big government deficits to support coffee prices, causing lasting damage to Brazil's public finances. In a brilliant little book on Brazil's coffee problem, his 1957 doctoral thesis at the University of São Paulo, Brazil's present economic czar, Antonio Delfim Netto, wrote bitterly: "What the defenders of coffee prices never understood was that these price supports were a fabulous incentive for our competitors to produce for a completely open market."

The implication for agricultural policy makers in Washington could not be clearer. ■

Those who can . . . don't

In 1959 General Mills began spending around \$3 million a year to turn soybeans into imitation beef, ham, sausage, bacon and other favorites for American kitchens. Ten years and nearly \$30 million later, it plunked down another \$10 million to put a new plant on a green field in Cedar Rapids. Dr. Art Odell, General Mills' top soybean production expert at the time, wistfully recalls his company's project as "our chance to make clean, cholesterol-free food." The company developed around 30 soya-based products under the Bontrae label: crab meat, beef, ham and chicken in various forms. Sausos (sausage-flavored bits) and Pepros (pepperoni-flavored) were marketed but failed to sell well. Only Bacos (bacon-flavored) have survived.

Seventeen years and another \$60 million later, General Mills ended its affair with the Bontrae line. Says General Mills' vice president of marketing Cy Ducharme: "The returns just weren't there."

Others since then have tried their luck with soya. Central Soya tried with Plus Meat hamburger extender, but with little to show for

it. Kroger Co. reports that during the 1973-74 beef shortage, its soy-extended hamburger—Kroger's Pro—accounted for 30% of its volume sales of hamburger. Now it's only 5%, even though beef has risen 48% in price since then. Miles Laboratories' Worthington subsidiary, making Morningstar breakfast foods and other fake meats, has enjoyed limited success.

Dr. Joe Rakosky, a former research scientist at Central Soya and now a consultant to the American Soybean Association, thinks he knows where soya marketers have been going wrong. "It should have been marketed as being a lot more expensive than real food, not a little less," he says. "You can't make a poor people's food and expect to sell it." Romeu Kihl, a plant breeder at the National Soybean Research Center in Brazil, made the same point to *FORBES* somewhat more elegantly. "Soya as a protein source has not found its place in the world yet," he says, "because those who need more protein are poor and cannot afford to pay for it, while those who can pay for it can afford to eat beef."



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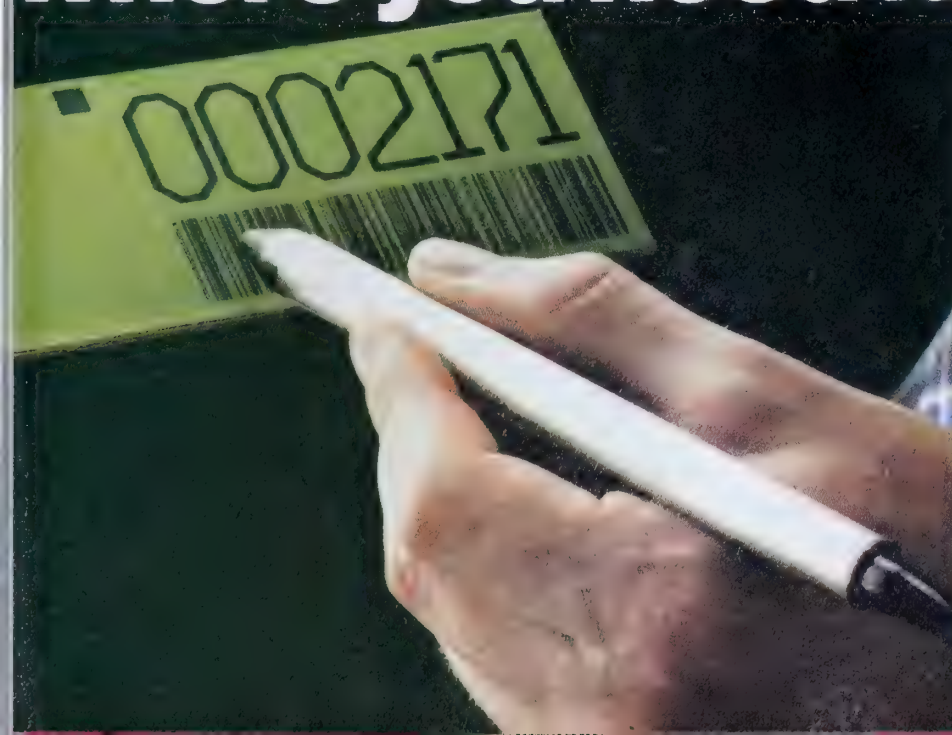
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Lance's old-fashioned management is the company's strength. But with competitors getting hungry, it may be a weakness, too.

Let them eat snacks

By William Harris

THE FOLKS AT Lance, Inc., the largest independent snack food manufacturer in the U.S., don't cotton much to management tools like debt financing, plant automation or even advertising. Instead, President Pete Sloan preaches old-fashioned virtues like company loyalty and lots of hard work. "Hell," scoffs the affable Sloan, himself a 27-year veteran of the Charlotte, N.C.-based firm known for its peanut butter sandwich crackers, "you don't need to go out and get yourself a computer and 14 M.B.A.s to run a successful business."

Sloan, 52, knows virtually all of his 2,000 factory employees by name and encourages each to call him Pete. Ferociously antiunion, he's equally proud that there have never been layoffs at Lance. What's more, each day at 9 a.m. and again at 5 p.m. a bell sounds, signaling employees to stop whatever they're doing for a moment of silent prayer.

A real corporate backwater outfit, right? Don't be fooled. Lance consistently chalks up the best aftertax margins in the \$11 billion snack food industry. Over the past five years, it has averaged 8.1%, *vs.* an estimated 4% for Nabisco and 7% at PepsiCo's Frito-Lay division. Return on equity has averaged 20% since 1977, and Lance has almost no debt. The company earned close to \$23 million last year on sales of \$280 million, and profits jumped 23% in the first half of 1982. Sloan's magnificent margins should improve even more, thanks to the drop in prices of peanuts and flour.

To maintain Lance's profitability, Sloan spends as little as possible. Lance, for instance, pours almost no money into new-product development. Sloan lets competitors do all

the legwork, then copies their ideas. "Whatever people are eating out there, we'll make," he says. Lance is tight with capital investment, too. At the Charlotte plant workers still hand-feed crackers into the machine that dabs them with peanut butter.

Lance's big advantage, however, comes from the way Sloan distributes the 80-odd items in his line. Instead of targeting low-margin supermarkets, where about 70% of all snack foods are sold, Lance concentrates on single-pack sales at thousands of non-competitive locations like gasoline stations, convenience stores, schools, even the odd funeral home. There are also 70,000 company-owned vending machines, which account for 30% of total revenues. "In a sense," says



Lance President Pete Sloan
Plain folks, snazzy margins.

Sloan, "we're in competition with everybody who wants your quarter—even Pac-Man."

The company serves its customers through a network of 2,000 salesmen. In keeping with Sloan's frugal style, they earn their 16½% commissions on collections, not sales, and every driver buys his own van. "That not only keeps us from tying up capital," he explains, "but people take better care of equipment they own. Besides, if a guy has made an investment, he's probably going to stick with the job for more than a couple of weeks."

Sloan, a native of Charlotte who wears a Lance ring and a Lance watch, took charge of the company in 1972. He picked up the old-fashioned management ethic established by Philip Van Every, the founder's grandson. Attempts at diversification, mostly unsuccessful, have reinforced his conservatism. Three months ago Lance divested the moneylosing ham business Sloan acquired in 1975, but he has no plans to unload his unprofitable plastic container subsidiary.

Unfortunately, Lance may need more innovation than Sloan seems willing to provide. Bigger, ever-hungry competitors are nibbling away at Lance's market—single-pack snacks. The company's unit volume growth has been flat for the past three years, with sales and earnings gains coming from price increases. And while Sloan won't spend a cent on advertising, outfits like General Mills, which bought rival Tom's Foods in 1966, are spending millions on promotion.

Then there's the question of opening up new territories. Lance products are found in only 35 states, excluding the West Coast and most of New England. Sloan seems little interested in expansion. "We have no plans to jump over 1,000 miles of jackrabbits to get to the people again," he says. "I'm pretty happy with this company as is."

Who wouldn't be? Debt-free Lance, sitting on \$33 million in cash, may be an ideal acquisition candidate. Members of the Van Every family hold 44% of its stock, but they are widely dispersed and might welcome an attractive offer. Remember back in 1965 when PepsiCo bought Frito-Lay for 25 times earnings? "Sure, everything has a price," says Sloan, "if you're a prostitute. But they can sell it once and they still got it. That ain't the way with companies."

Such conservatism, of course, is what has made Lance so successful. The danger is that changes in the snack food market could leave the company behind—one challenge that more of the same won't overcome. ■



Massachusetts

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Massachusetts



"The American economy is being more severely challenged than at any time in decades. Massachusetts holds many of the keys to successfully meeting the challenge. Earlier than most, we have redirected our economy through enterprise and innovation, and applied the lessons of fiscal discipline and conservation of resources.

The central place of economic growth in our state government poli-

cies is reflected in programs to expand our already superior workforce, to control government spending at all levels, and to extend tangible support to business expansion.

There is a quality of achievement and a quality of living in Massachusetts that attracts those who want to create the future. It is a quality we are committed to sustaining."

Sincerely,

Edward J. King
EDWARD J. KING
Governor

There is no coal or iron or oil in Massachusetts—nothing to pump or mine. The land is not the most fertile in the Union. For the most part, the only natural resources of which we can boast are fresh air and clean water. For all else, we have been dependent throughout our history on the skill, imagination and resourcefulness of our citizens; on their faith in progress; and on their belief that the responsibility for improving the world and creating the future rests with those who see how it can be done.

Our success reflects our ability to cultivate and reward these qualities. One measure of our success is the economic vitality of the Commonwealth itself. A second is the extraordinary number of innovations—in science, industrial organization, art, medicine, education, and the law—devised here over the past two centuries. Many of these innovations have set the standard for accepted practice in a field or formed the basis of a new industry. Yet a third measure is the sheer duration of this flow of innovations. Beginning about 200 years ago and continuing to the present day, Massachusetts has been responsible for a number of innovations far out of proportion to her population.

Three factors have contributed most significantly to Massachusetts' position as an innovative society: a large and varied community of excellent colleges and universities; a tradition of enterprise and entrepreneurship; and an active culture with a strong sense of history.

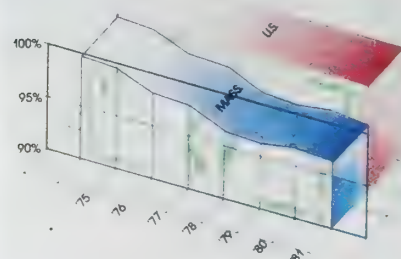


Successful innovation depends on foresight, skill, enterprise, and the support of a progressive, insightful community.

Massachusetts' 120 institutions of higher education have reputations for excellence that are unparalleled. This excellence attracts the most energetic, imaginative, and creative minds from around the world, resulting in a vitality of spirit and intelligence that spills over the boundaries of any one partic-

ular institution and charges the society as a whole.

The influence of a strong educational community has created an indomitable number of knowledge-intensive companies in Massachusetts. These companies demand the highest possible standard of performance because the development of new technologies requires precise, accurate, and timely answers. A large number of consulting companies, with specialized skills in everything from international marketing to new product development, have become a major feature of the business



The cost of doing business in Massachusetts has declined in recent years relative to the US average.

scene in Massachusetts over the last years. Financial institutions have also been attracted. Money market funds



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Massachusetts

trusts and pension funds are in abundance in the state. They provide ready access to capital for growing com-

panies. And there are more venture capital companies in Massachusetts than any other state except California.

Additional sources of capital include a number of economic financing programs formed by the State to assist businesses that are expanding or locating in Massachusetts. The largest of these is the Massachusetts Industrial Finance Agency (MIFA) which has issued well over \$1 billion in industrial revenue bonds to over 1000 companies.

Of course, we recognize that economic prosperity and job development go hand-in-hand. To help growing businesses obtain the skilled workers they need to succeed, the state has created an innovative \$6.5 million program called the Bay State Skills Corporation (BSSC). In partnership with private industry and Massachusetts' extensive network of academic institutions, the BSSC provides matching funds to train people for both entry-level and advanced jobs. Businesses



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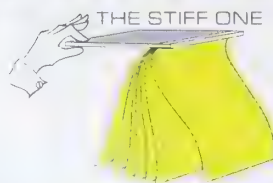
But you'll probably discover even better reasons for demanding The Ampad. Like our 16 lb. water-marked paper, that won't bleed. Like The Ampad's perforated pages. Like The Ampad's leather-like binding, which is stapled and glued. So it doesn't fall apart like other yellow pads.

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Ampad. So do most people who make decisions for a living.

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Massachusetts

Massachusetts Technology Park Corporation. The new Corporation will be funded with \$20 million in state money for the acquisition and construction of a Microelectronics Center and will be matched by private sector donations of equipment, machinery, and instructors. Altogether, the public/private partnership has never been stronger in Massachusetts and the evidence is clear in the strength and health of the economy.

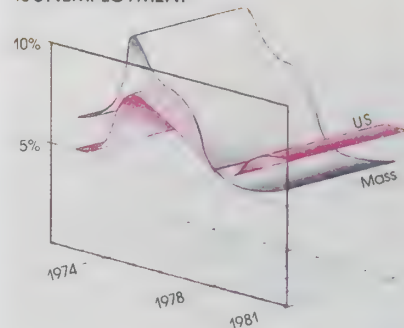
Because we are one of the country's leading export states, Massachusetts has developed a concentration of foreign trade services. The stream of international traffic into and out of Logan Airport is the most dramatic illustration of the level of service we bring to international trade, but we

also have a broad range of specialists in international banking, law, and brokerage relations. In addition, there are three Foreign Trade Zones and a state-sponsored Foreign Business Council composed of local business leaders. The Council offers foreign investors expert advice on site evaluations, investment studies, financing assistance, and general liaison with other authorities.

From 1978 to 1981, a record-breaking 1,325 companies expanded in Massachusetts, contributing to an overall increase of 150,000 jobs. The unemployment rate has been decreasing relative to the national average for the last six years and has been below it for the last three.

The cultural and social contribu-

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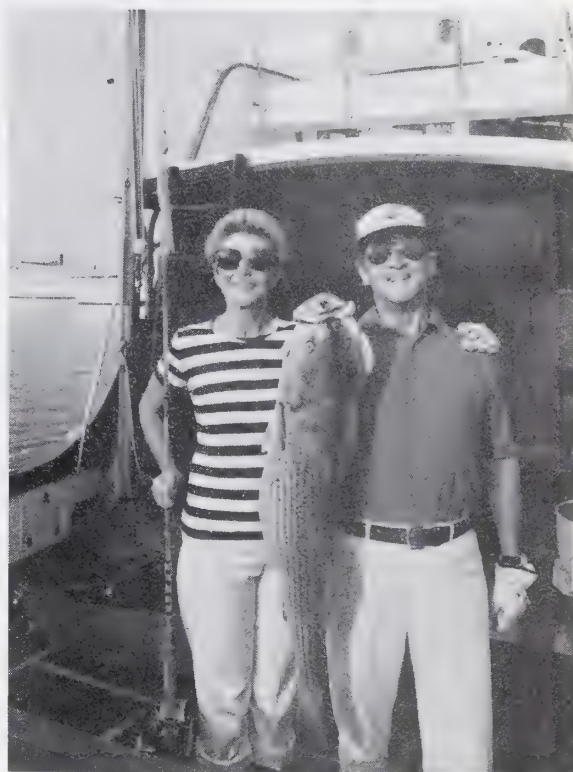
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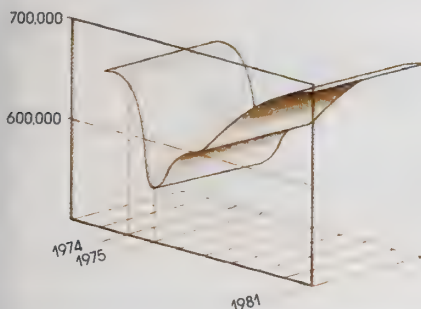
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New England Telephone

Massachusetts

NUMBER
OF EMPLOYEES



Jobs in manufacturing have increased dramatically in Massachusetts as high technology industries have grown.

ent kind of person and a different kind of company: ambitious, intellectually adventurous, and demanding of quality in all spheres of life. This is the foundation of our culture, and it is a resource more important than oil.

"There has been an important change in attitude in Massachusetts recently. The leadership in our state government today fully appreciates the importance of a healthy economy and the need to create and save jobs. As part of a domestic life insurance tax reform package, the Massachusetts-based life insurance companies and the state legislature created a \$100 million fund to be invested in the Massachusetts Capital Resource Company, with the objective of creating or saving at least 2,000 jobs. To date, this fund has invested over \$76 million in our state's economy and has created or preserved over 6,000 jobs. MCRC is a true partnership approach to the job of economic development."

Mr. James R. Martin, Chairman
Massachusetts Mutual Life
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"One of the key factors in our success in Massachusetts is the wealth of skill and talented labor that we draw upon. Historically, our work force has responded admirably to the incentive

programs and other progressive employee relations programs we have established. Many of us at the company, including myself, have our roots in this part of the country. The quality of life, the environment, and the cultural climate all help to attract talent to Massachusetts."

Francis J. Guiliano
Chairman & Chief Executive Officer
American Pad & Paper Company

"As a result of the cap on state spending and the effects of Proposition 2½ on local property taxes, government spending has been reduced by almost a billion dollars a year. We have increased the gross personal income in the state by a billion dollars. The aggregate has been enough to bring our taxes from 17 percent down to 15 percent of personal income, and we are now competitive with the other industrial states."

Mr. Joseph R. Carter, Chairman
Wyman-Gordon Company
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"In the past two years GCA Corporation has completed a 500,000 square foot expansion program in Massachusetts and has added hundreds of new jobs to our Massachusetts payroll. We believe GCA will continue to be able to attract the topnotch talent that will stay with us over the long term. The skilled labor force in Massachusetts is unusually good and unusually talented. We have absolutely no problem with productivity in this state."

Mr. Milton Greenberg, President
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"As one of the world's leading producers of highly sophisticated electronic devices the Massachusetts work force is essential to our success. We will continue to expand in Massachusetts because of the proximity of academic and research centers engaged in exploring the frontiers of medicine, industrial automation, navigation and

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Mr. Ray Stata, President
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"Ours is a high technology business with interaction among research, engineering and manufacturing. Because we are near a variety of schools there is a constant influx of young people who keep things stirred up, keep us re-evaluating our attitudes. This is invigorating and productive."

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In these days of dreary economic forecasts, The Wall Street Journal found good news in Massachusetts.

In a March 2nd editorial, The Wall Street Journal gave Massachusetts' economy rave reviews. The facts behind the good news?

Massachusetts has dramatically reduced its business tax burden as compared to other states. Today, 46 states have higher busi-

"... tax cuts ... have wonderfully revived the State's growth ... as Massachusetts' state and local tax burden has fallen below the national average, its per capita income has soared."

ness tax burdens than Massachusetts, and since our tax burden for personal income has dropped from 17.7% to 14.5% since 1977, personal income tax reductions will save Massachusetts taxpayers \$2.1 billion this year.

So, it's no wonder that Massachusetts is

"Since 1979, when the tax burden started falling, the state's income level has zoomed from an anemic 1.1% above the national average to 8.2%."

fourth in the nation in net growth of manufacturing jobs—400 plus manufac-

All this good news means an unemployment rate well below the national average and a 29% increase

"The State unemployment rate has dropped from a level 25% above the nation's to one of the lowest among the industrial states. It has added more than 200,000 jobs in the last four years, and its welfare rolls are down."

in state tax revenues since 1978. What The Wall Street Journal has called a "serious effort to level off the growth in state spending" will result in a projected surplus of \$155 million next year in the State's revenue.

It's no wonder that Massachusetts has been named the laboratory which demonstrates that tax cuts lead to economic growth.

"In spite of the recession, state revenue growth in the first five months of this fiscal year has been the greatest in memory."

In short, if you're doing business in Massachusetts today, you're in the right place. And, if you're not, we have more good news for you. For more information call or write Ernest A. Lucci, Commissioner, Massachusetts Department of Commerce, 100 Cambridge St., Boston, Mass. 02202, (617) 727-3218.

Massachusetts

Taxing Matters

No more state tax on companies' dividend income? That's what the Supreme Court—and lots of companies—seem to say.

Out of state, out of pocket

By Ellyn Spragins

IN 1982 MANY CORPORATIONS with operations in states outside their home state may stop paying hundreds of millions of dollars of income tax to those other states. What's more, many could get several years' worth of tax refunds from the states.

In the past, companies with income-producing operations in more than one state have often paid taxes to states where their plants or subsidiaries are located in addition to the state in which they are headquartered. States collected a portion of income based on the percentage of a manufacturing company's sales, assets and payroll located within its borders.

Problems arise because the outside state wants a bite of the parent company's total income. That income can

include dividend income from the parent's other subsidiaries—whose businesses might be altogether different. Should the state that is home to a conglomerate's electronics division be allowed to levy a tax against upstreamed dividend income from machine tool plants in other states? It's like a diner who orders cantaloupe for dessert and helps himself to a little bit of everyone else's cheesecake.

Apparently that is a little too rich for the Supreme Court. In a June decision on *Asarco* and *F.W. Woolworth*, the Supreme Court ruled that a company's intangible income—dividends, interest and capital gains from subsidiaries—could not be taxed by an outside state, unless that income was produced by a similar business. Traditionally, if a state figured it deserved to tax 30% of a company with \$100

million in income at its corporate rate of 8%, the state would have reaped \$2.4 million. But under the decision, if \$20 million of the \$100 million came from parent company subsidiaries that were unrelated to the business domiciled in the state, the state's draw now drops to \$1.9 million. The other half million sticks with the parent and so may be subject to the home state's taxation.

Obviously, conglomerates stand to save the most. But they don't like to talk about it—why alarm any sleeping state tax auditors? The list of companies that could benefit starts with heavyweights like *Gulf & Western*, *Kidde*, *Textron*, *IBM* and *ITT*. Companies in that category, says Ruurd Leegstra, *Coopers & Lybrand's* director of state and local taxation, are definitely studying their options.

Even bigger savings may be possible. Leegstra speculates that corporations can exclude dividend and interest income from their investment portfolio. After all, if interest and dividends from subsidiaries can be taken out of the income base, why not those from completely unrelated companies? If his logic works, then even single-industry businesses could benefit from the court's ruling.

Not surprisingly, states are quaking in their boots. Most can't believe the court intended its decision to exclude this kind of income from their taxing authority. "The consensus is that the court really didn't mean that," says Benjamin Miller, an attorney on California's Franchise Tax Board. "They *can't* mean that. There is a fear that, God, if they did mean that, now what the heck will we do?" California could lose as much as \$500 million, or 20% of its corporate income tax revenues. Studies by the Multistate Tax Commission seem to indicate that other states could lose up to 45% of their corporate tax revenues, which overall represent almost 10% of states' total income. Idaho and New Mexico, the states involved in the *Asarco* and *Woolworth* cases, have quickly petitioned the court for a rehearing. Hard pressed by Reagan's "new federalism," states also are anxiously awaiting the fall term, when the Supreme Court's ruling on two cases should clarify its intentions.

But, while Leegstra counsels an aggressive stance for companies, he warns that the savings will not come easily. "Taxpayers are really going to have to fight for these dollars," he says. "It's not going to come to them just because of this case." That means going to the mat on a case-by-case basis, but it's clearly worth it. ■



The last time the British government sold a state company, investors made 35% in the first day's trading. Will the forthcoming sale of British National Oil Corp. bring another windfall?

North Sea, anyone?

By Rosemary Brady

FIASCO!" That's what Labour Party politicians in Great Britain called the Conservative government's sale last February of its shares in Amersham International, the \$112.6 million (sales) radioactive materials producer. The government priced the shares at \$2.57 and watched with chagrin as they opened for trading at \$3.42. Since then, prices have risen to \$4.35—an astonishing windfall for shareholders and a major embarrassment for the government and its investment adviser, N.M. Rothschild & Sons Ltd., which priced the Amersham shares.

Now the Tories are readying another sale of state assets to the public—51% of BritOil, the newly named exploration and production arm of the British National Oil Corp. (For "national energy security" reasons, the trading arm of BNOC will remain state-owned.) Likely to bring just over \$1 billion into the government's coffers—about as much as Mrs. Thatcher spent to drive the Argentines from the Falkland Islands—BritOil will be the largest new issue ever offered on the London Stock Exchange. BritOil will not be registered with the SEC and will be priced in sterling, but Americans willing to accept the currency risk can buy it through larger brokers.

Will BritOil bring investors the same kind of windfall profits as Amersham? Probably not, but that's not to say it will not generate plenty of interest. Top oil analyst

McGregor of the big London brokerage house Hoare Govett Ltd. says the "environment is sufficiently depressed to force the sellers to be quite generous." Brendan Wilders of London's Montagu, Loeb, Stanley & Co. agrees. "It could be an excellent deal [for buyers]," he says. With BNOC valued at an estimated \$2.8 billion to \$3.24 billion (on Wilders' conservative assumption of a \$31/barrel crude oil price and reserves totaling 630 mil-

lion barrels in BNOC's six producing fields and two fields under development), 51% of the company could net the government up to \$1.6 billion. But Wilders and other experts think the government will have to sweeten the deal a bit and ask between \$1 billion and \$1.3 billion. At that price, the shares could yield dividends of 5% to 7%, depending on the market conditions at the time of the sale. That yield falls smack between those offered by majors like British Petroleum (10.9%), Royal Dutch/Shell (8.9%) and the smaller North Sea exploration company LASMO (5%).

Even with a sweetener, Hoare Govett's McGregor doubts there will—or should—be much U.S. interest in BritOil. "It doesn't offer Americans anything more than a little exposure in the North Sea," he says. "Look to your own doorstep. You have an amazing range of options, and stocks are a bloody sight cheaper [in the U.S.] than oil stocks here."

Constantine Fliakos, senior oil analyst for Merrill Lynch in New York, agrees. He compares BritOil with Houston's Superior Oil. Like BritOil, Superior Oil is an upstream company—that is, an explorer and a producer of oil rather than refiner and marketer. But it explores mostly in North America rather than in highly taxed Britain. Superior's stock sells at a discount of roughly 50% on assets, he says (although it yields only a 0.7% dividend), while London analysts think the government will offer BritOil at a discount of 31% or less.

Superior, moreover, could well be taken over; BritOil most certainly cannot be. Energy Secretary Nigel Lawson, the government official responsible for the sale, promises Britain's Energy Ministry will retain a special "reserve power" to prevent control of the company from falling into "unacceptable hands"—a predatory foreign oil company, for example.

While the sale will probably go smoothly, there is considerable debate over BritOil's near-term future. London stockbrokers Phillips & Drew, who think BritOil could be earning \$540 million aftertax by 1986, assume the company will be getting \$42 a barrel in 1985 and will boost production from today's 140,000 barrels/day to 177,000 barrels/day in 1985. But Martin Lovegrove, a



*The Dunlin field in the British North Sea
Soon to be part of a major public offering.*

former economic analyst for BNOC and now an independent consultant for North Sea oil companies, thinks it is likely BritOil's high production levels will begin to *drop* after 1984. Production, says Lovegrove, "could drop as much as 12% per year," from 1984 to 1986 or 1987, "when it might pick up again." He believes the company will experience a "gap" as currently producing fields run down before new fields reach full production.

There are questions, too, about the ability of BritOil management to handle the job. Unlike most of its major oil company competitors, fledgling BNOC is run primarily by former merchant bankers and accountants, not seasoned oilmen. BNOC Chairman Philip Shelbourne, recently appointed BritOil's chairman, was a merchant banker with London's Samuel Montagu & Co., Ltd. I.R. Clark,

BNOC's executive in charge of trading, is a chartered accountant. Only G.M. Ford, in charge of development, worked 29 years as a production engineer for Royal Dutch/Shell.

The biggest imponderable of all, of course, is the vagaries of the oil market. Experts at present think that prices of North Sea crude, where BritOil has 7% of its estimated recoverable reserves, will probably rise from their current \$33.50 level in the autumn, pushed mostly by seasonal changes in demand and an end to drawing on inventories by consuming companies. But Hoare Govett's McGregor believes 1983 could be "a very worrying year for the oil sector." In that case, he adds, "you wouldn't want to hold anything in the sector, let alone BritOil."

Whatever the future uncertainties, Britain's institutional investors, who

need sterling-based assets for the sterling-based pension funds, are gearing up for the BritOil launch. And Energy Secretary Lawson says he is determined to give the "small investor"—the man on the street—a piece of the action. How to do it? The government may auction some of the shares to merchant banks, pension funds and other investment institutions by tender (so that the institutions would have to name a reasonable price) and offer the rest to the public in a straight sale of stock.

"We want to make sure the sale is a success," Lawson told reporters recently. Translation: As a bonanza BritOil probably won't gush the same windfall profits as last February's Amersham sale. But if you like depressed oil stocks in general and North Sea oil stocks in particular, it could be a decent deal. ■

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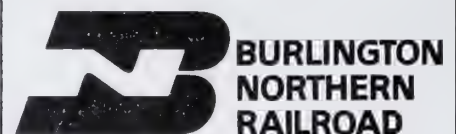
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Industrial Development Department
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Faces Behind The Figures

Edited by Barbara Ettore

Expect the expectable

As the mid-August release date for Royal Dutch/Shell's six-month figures drew near, oil analysts expected no surprises from the world's second-largest oil company (1981 revenues, \$82.3 billion). They are putting earnings for Royal Dutch itself (which owns 60% of the group) at around \$1.65 a share for the second quarter, compared with \$2.19 in the same period last year.

"No surprises" should be the rule at Royal Dutch/Shell with Sir Peter Baxendell, newly installed as chairman of its committee of managing directors—in effect, CEO. A product of 36 years at the Vatican-like corporation, Baxendell, 57, says Royal Dutch/Shell's "peculiar but collegiate" system of management works well because it prevents the company's overreacting to short-term events—the current oil glut, for example. "We're not prone to rapid shifts in policy," says Baxendell, describing the weekly meetings of the eight-member managing committee. "We spend a lot of time together and usually reach a consensus without having to take a vote."



Royal Dutch/Shell's Baxendell
The popular forecasts are "foolish."

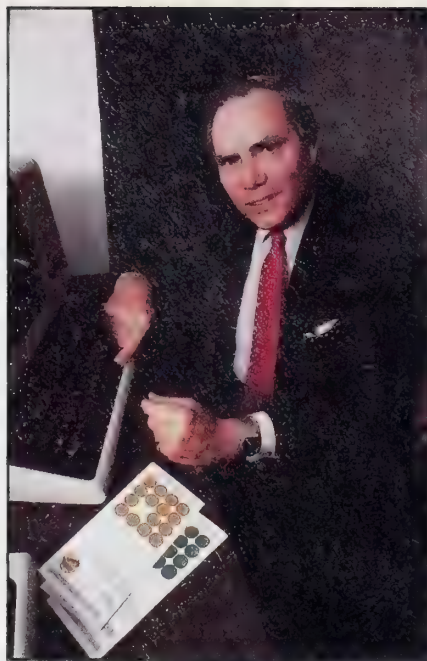
For the future, Baxendell says Royal Dutch/Shell will stay "very much with the energy business." The corporation has no intention of moving into nonenergy operations, he says; on the contrary, he will probably pump more cash into coal and liquid natural gas. He says: "There are still opportunities in energy left." A graduate of London's Royal School of Mines and a former engineer for Royal Dutch/Shell in Egypt, Venezuela and Nigeria, Baxendell thinks popular forecasts that the energy crisis is over are "foolish." Worriedly, he scans the London skyline from his 22nd-floor office and remarks, "Complacency can be darned dangerous."

Among his chief fears is that the governments of industrialized countries will increasingly be tempted to place alternative energy projects on the back burner. "There is a tendency to take the view that the oil business is becoming relatively simple, to see simple forces at work," he says. Then, referring to OPEC, he adds, "But the factors that made this business very erratic are still in place."—Rosemary Brady

Peake efficiency

There's an old, not so funny, joke around Wall Street that the major purpose of the U.S. commodities exchanges is to transfer money in an orderly fashion from the pockets of the public to the pockets of the floor brokers. Junius (Jay) Peake stops short of endorsing that allegation, but he does say that the present system of trading leaves a lot to be desired. Peake, 51, is president, CEO and one of four founders of Intex, a Bermuda-based commodities exchange that will begin operation this fall, initially trading futures in gold and long-term Treasury bonds. Intex has no trading pits, nor even a trading floor. It is Wall Street's first jump into an all-computerized trading arena. Members around the world will trade via terminals linked to Intex' mainframe computers in Bermuda.

Why is this system better? Peake boasts: "It's cheaper, fairer, error-free and eventually will operate around the clock." The system's users, he says, will have a better chance of buying and selling at current prices than those in traditional exchanges, where orders must be sent to the floor, then carried by hand to trading pits for execution. A level playing field? Well, Intex will eliminate the advantage brokers have in trading for their own accounts on exchange floors. "If the bid on the terminal is



Intex President Junius Peake
Round-the-clock action.

for 500 cars [contracts] for gold at \$353.50 an ounce, the first members to hit the bid electronically get it," notes Peake. Moreover, confirmation of the trade comes as quickly.

Peake—who was an independent consultant before going to Intex—brushes aside allegations that he has gone to Bermuda to avoid scrutiny and U.S. commodities regulations. The computer system creates an "absolute audit trail," he says, and it also eliminates trading errors that cost Wall Street millions of dollars a year. The real reason for Bermuda, he maintains, is to prevent the "self-interested" commodities exchange establishment from tying his hands through aggressive lobbying—just as the stock exchanges have stiff-armed, successfully thus far, efforts to introduce a fully computerized equity trading system.

Once the system is up and running, Peake expects to add new trading instruments quickly, since he will not be restricted by the tremendous costs of physical expansion. His startup costs, he says, have been "a minuscule amount, compared to the \$110 million the Chicago Board of Trade has just spent on its new facility."

One sign that Peake might be worth paying attention to is that more than 250 individuals and companies worldwide have already plunked down \$12,000 to \$20,000 each for membership in Intex. They include the likes of Merrill Lynch, E.F. Hutton, Samuel Montagu & Co. of London, Peter Scales Commodities of Hong Kong and Summa International of Singapore. Competitors also

are signing up for membership. Leslie Rosenthal, for instance. He's chairman of the Chicago Board of Trade.—Richard L. Stern

Land, ho

Farm acreage in the U.S. may strike many as an economic wasteland these days (see p. 108), but not everyone, especially some businessmen across the Atlantic. Later this month, Savills, Britain's big, 127-year-old agricultural land management and consulting firm, will open, in Washington, D.C., its first U.S. office. Its goal: to channel British institutional and individual funds into American farmland.

"If [land prices] haven't bottomed out," says Leicester le Sueur, "they're bloody close to it." Le Sueur, a partner



Savills' Leicester le Sueur

Lamb mountains and butter lakes.

in London-based Savills and the person who will head its U.S. office, agrees that there is now a food glut, especially in cereal grains. But he argues that the glut is temporary, that the easing of restrictions on grain shipments to the Soviet Union by President Reagan last month will be a major force in rebalancing cereal supply and demand. "We in Europe know these lamb mountains and butter lakes can disappear overnight," he says. "I'd be surprised if this temporary [U.S. farm commodity] oversupply is still with us in six months."

Since Britain's exchange controls were abolished in 1979, Savills has funneled over \$50 million of British client money into U.S. farms. The firm charges its client-buyers a 1% to 5% commission, depending on the size of the transaction, and also ar-

Faces Behind the Figures

ranges for proprietary overseers for the properties. Savills currently manages 500,000 acres in Britain for clients, including most of Britain's wealthiest pension funds.

Le Sueur, 41, disabuses his clients of the idea that their investment is a disguised—or delayed—real estate play. Buying farmland in expectation of residential development, he says, represents "hope value, and we pay no premiums for hope value." To protect his absentee-landlord clients against their U.S. land's being stripped of its nutrients and then abandoned by conscienceless tenants, le Sueur urges clients to avoid cash leases and encourages them to enter into long-term (21 years or longer) joint ventures and crop-sharing leases.

Le Sueur is convinced American farmland prices are about to rebound and will offer his clients ample capital gains. His reasons: Interest rates, long term, will fall; inflation will be brought under control; today's food glut will evaporate as an increasing number of hungry mouths demand to be fed; and commodity prices will rise again from what he calls "their historically, unsustainably low levels."

When? Le Sueur hedges. "We're not saying, 'Rush in and buy now!' We're saying, 'Get ready for when the market does turn.' I think that will be within the next 12 to 18 months." Le Sueur's clients and hard-pressed U.S. farmers can only hope he is right.—Lawrence Minard

Rent-a-brain

In Great Britain more than half the viewing audience prefers to rent, rather than buy, a TV set. Now the man who helped pioneer that idea both in the U.S. and internationally has decided to expand the notion with... *ta dah*... rented home computers. He thinks it can be big business: Worldwide, he says, upwards of \$10 billion in capital investment already supports TV set and video rentals.

"The average home in four to five years is going to have several TV sets, a VCR and some sort of home computer, plus prerecorded software—an electronic game room," says Brian Wolfson, chairman and founder of

Rentacolor, Inc., which rents about 30,000 television sets and 10,000 VCRs (all bought at wholesale) in 18 U.S. cities. Accordingly, in the fall, Hartford-based Rentacolor will offer the Commodore VIC-20, a basic disk-drive home computer that retails for about \$500. The rental plan: a three-month trial offer of \$29.95 per month, followed by a straight monthly rental fee of \$19.95. (By comparison, Rentacolor's TV sets—Magnavox, Quasar, GE and others—rent for \$29.95 a month; its VCRs—Panasonic and Quasar—for \$33.95.)

Since Wolfson, 47, and two other investors started Rentacolor with a single store in Anaheim, Calif. in 1973, the chain has grown to 50 outlets. So far in 1982, he says, Rentacolor has doubled its outlets and has



Brian Wolfson of Rentacolor, Inc.

No game for pikers.

watched its customer base increase by 50%. Now the company plans to spend over \$7.5 million on new equipment alone in the rest of the year.

Before founding Rentacolor, Wolfson was joint managing director of the Granada Group, Plc., the British entertainment conglomerate. Wolfson expects that servicing all these electronic gadgets will be a key to Rentacolor's expansion. "When you bring households up to that level of dependence, you're opening a Pandora's box as far as servicing and support are concerned," he says. For starters, Rentacolor's future expansion will offer a 24-hour toll-free hotline for confused computer customers.

Rentacolor has yet to make a profit. "If I released the loss figures, it would frighten the life out of every customer and supplier," he says. Startup costs

are heavy—nearly \$6 million to service 10,000 customers—and recovery of investment per unit takes up to two years. (Wolfson's lead banker in the venture is European-American.) It will be no game for pikers. "You must commit yourself," Wolfson says, "to tens of millions of dollars over a 7-to-12-year period."—**Theodore Lowen**

Misery makes opportunity

Defaults and foreclosures in California real estate are running at a 17-year high, which means big problems in the mortgage portfolios of the Golden State's mammoth banks and S&Ls. But to J. Foster Fluetsch, president of modest-size (\$5.2 billion assets) State Savings & Loan, his rivals' miseries merely present opportunity.

Stockton-based State S&L and neighboring real estate developer Grupe Co. have formed a \$50 million joint venture to take foreclosed properties off the hands of banks. Backed by cut-rate construction financing from the foreclosing banks or thrifts, State and Grupe will redesign a development, if necessary, then finish it out and sell the property. State and Grupe will then pay off the construction loan, thus bailing out the foreclosing bank or S&L, while pocketing a profit on the sale.

"We feel banks are sitting there not knowing what to do with these assets," says Fluetsch. "Most people assigned to handle foreclosures are lenders, not problem solvers." Will there be an ego problem when State comes knocking at the door of, say, \$121 billion (assets) Bank of America? "There will be some resistance,"

Fluetsch concedes. "But most banks and S&Ls we've talked to would love to sell their foreclosed properties, as long as they don't take a big loss."

The partnership is dubbed El Capitan, after the peak in nearby Yosemite National Park. Indeed, Fluetsch and State S&L have been rock-hard when it comes to aggressive lending. State is the principal subsidiary of Financial Corp. of America (1981 revenues, \$387 million), a Big Board company well known for its forceful real estate lending in California. Some rival S&L executives take a skeptical view of State's loan policies, but they were a principal factor in the rise of parent Financial Corp.'s earnings to \$1.96 a share last year, from \$1.68 in 1980, making Financial the only major California S&L holding company to enjoy higher earnings in 1981.

Fluetsch, 46, expects the venture to generate even more mortgage lending opportunities for State—a key reason for its involvement. He figures that 15% of his projected \$3.5 billion 1982 loan volume will come from El Capitan mortgages. State will collect a 4% origination fee on these loans, Fluetsch figures, worth perhaps \$21 million in annual current and deferred profits. What if El Capitan can't unload its properties? The venture will rent them, relying on State's financial strength to hold and maintain them. Fluetsch doesn't anticipate a problem, "unless the American public decides to live in tents."—**Roger Neal**

Older than UNIVAC

In the world of computers, if not on the high seas, Grace Murray Hopper is a living legend. She is the creator of the ubiquitous computer language COBOL (Common Business Oriented Language) and of the compiler, a program that translates instructions for a computer from English to machine language. She is also a captain in the U.S. Navy and, at 75, the oldest officer on active duty in that service since the retirement last January of Admiral Hyman Rickover.

Officially, Captain Hopper is attached to the Naval Data Automation Command at the Washington (D.C.) Navy Yard. In fact, she spends more than 300 days annually on the road talking up computers to businessmen, students and servicemen. Her latest crusade is convincing both government and business to abandon as quickly as possible "dinosaur" mainframes as all-purpose brains and to shift lesser tasks instead to networks of minicomputers.



Captain Grace Murray Hopper, U.S.N.

Why must a clock run clockwise?

Captain Hopper believes home computers will actually bring families closer together, rather than create a nation of wired-up hermits. "Have you ever seen the joy when a father is learning from his son how to work one?" she says. "Young people have absolutely no fear of computers."

A self-styled maverick, Captain Hopper is known for having clocks that run backward with the numbers painted in reverse order ("Who said a clock has to run clockwise?") and for giving visitors 11½-inch-long pieces of wire to illustrate the distance a piece of information can travel in a computer in a nanosecond, a billionth of a second. She seems to have been born with an unorthodox curiosity. Her mother once banished her to her room for several days after she dismantled seven clocks to find out how an alarm worked.

Captain Hopper joined the Naval Reserve in 1943 as a lieutenant-junior grade while on the faculty of her alma mater, Vassar (class of '28, Phi Beta Kappa; Yale Ph.D. in mathematics, '34). The Navy assigned her to work on the first U.S. computer, the Mark I, at Harvard in 1944. After three years on the Harvard faculty, in 1949 she moved to Philadelphia to help develop UNIVAC, the first commercial computer. In 1973, too old for a normal promotion, she was elevated to captain by a special act of Congress.

How does she feel about succeeding Rickover as the oldest officer on active duty in the Navy? "It's priceless," she says. "Of course, I'm a lot less abrasive."—**Allan Dodds Frank**



Fluetsch of State Savings & Loan
Lending and "problem-solving."



Those sailplanes making lazy circles in the sky are a lot more fun to fly than engine-powered aircraft. Skilled pilots can stay aloft for hours on days when the leaves are barely stirring.

Flying with the birds

By Howard Banks

TO AIRLINE PASSENGERS, that "whoomph" in the seat of the pants is just one of those annoying—and sometimes dangerous—bumps that can spill a neighbor's drink in their laps. But to glider pilots it is the stuff of life—an invisible updraft of air that allows them to imitate the hawks and soar their airplanes against the pull of gravity without an engine.

Imagine you are flying a glider being towed by a power aircraft (sailplanes need a helping hand to get started). About 2,500 feet above the airfield, the "vario" instrument shows that you are hitting rising air. Look around. If no other traffic is in the way, pull the release knob. The tow rope snakes away behind the tow plane. Make a quick, steep turn to the

right (the tow plane turns the other way for safety reasons) and climb a little to use up the extra speed of the tow. Now concentrate on the vario. It has a needle that points horizontally to the left, toward zero, when the sailplane is neither rising nor falling. It points up (joy) when you are climbing and down (woe) when you are sinking.

All you have to do is find the best part of the lift and then, turning steeply, stay in it—easier said than done at first. No two pieces of lift are the same, and on a good soaring day the air is never still and calm. It is a true sport, compared to flying power planes, since it has no useful purpose and gets you nothing but the satisfaction of having done it—having beaten gravity in near silence, with just the rustle of the wind over the canopy.

"There are a number of reasons for doing it," says Brian Utley, 49, an IBM

Personal Affairs

Edited by William G. Flanagan

director of systems and technology, whose job on the ground is to make sure the computer giant is making the sorts of computers, from the smallest personal machine to the largest 4331, that the market wants. He is also one of the country's leading competition sailplane pilots. "For me," he says, "flying was a boyhood dream. But now it's a total distraction from the rest of the world. Encapsulated in my silver-white slipper, the focus of my concentration is to survive, to stay



View from glider cockpit
Beating gravity in near-silence.



IBM's Brian Utley about to take to the skies
One of the country's top pilots, he logs about 150 hours a year aloft.

Personal Affairs

up, by identifying with the forces of the air."

Soaring is actually flying by solar power. As the sun warms the air, it gives it energy. For glider guiders, useful energy comes basically in two forms, wind and thermals. As wind hits the side of hills or mountains it wells up, and the glider can stay up by flying in the upcurrent. Thermals are bubbles of warm air that rise through the surrounding air fast enough to lift a sailplane. Sometimes they are strong enough to become a column of rising air—as in the desert "dust devil." The top of a good, strong thermal is often marked by a sharply defined cumulus cloud, the sort that looks like a handful of cotton.

Soaring pilots soon become keen

meteorologists. And skilled soaring pilots can seemingly stay aloft at will, so long as Mother Nature continues to provide the sun's energy to stir the air. Nothing makes a soaring pilot happier than staying aloft when his rivals are being "shot down" for lack of finding enough lift.

It took 10 years for anyone to beat Orville Wright's 1911 world soaring record of almost 10 minutes. In 1921 a German, Friedrich Harth, stayed up for over 21 minutes. Nowadays, pilots stay aloft considerably longer and travel much farther. On the recent July day pictured in the accompanying photographs, Brian Utley and Erwin Dunki, 55, took to the skies. Dunki, head of Swiss-owned machine tool importer Hirschmann Corp., took off first. By the time Utley arrived, unpacked his ship from its trailer and put the wings and tailplane on, Dunki had already been flying for a couple of hours, had reached over 6,000 feet and was 15 miles upwind. He soared his way back over the airfield at Wurtsboro, N.Y. to fly in formation with Utley's ship.

Competition pilot Utley has done 30 flights over 300 miles in length. And Dunki, who soars only for pleasure (he used to sail, too, but gave it up—"the choice was obvious," he says), recently added a third diamond to his Gold badge, the highest award in international gliding, with a 312-mile, 7-hour-49-minute flight, starting and ending at Wurtsboro.

The world record distance flight is now an incredible 908 miles, and the world record altitude flight for a glider is 42,303 feet, higher than most airliners go.

When this writer first got into a glider 25 years ago in Britain, the machine had an open cockpit, struts and wires to brace the wings. It was drafty, freezing in winter, and the rain stung your face. Those old training ships had a glide angle like a falling brick. But today's fiberglass ships, which use carbon fiber to reinforce their construction, are among the sleekest, most aerodynamically efficient machines ever designed. (Almost all of the best ones are made in West Germany.) They have a glide angle of up

Getting into gliding

The first thing to do is to send a check for \$3 to the Soaring Society of America (address below), which is 50 years old this year. You will receive booklets on soaring, including a directory of all the sailplane airports in America.

The directory merits some study. It tells not only where the airfields are but what sort of equipment and services are offered. For a busy executive, a commercial operation is probably a wise choice; it will cost a bit more than a private soaring club, but you will not be expected to put in your share of the work needed to keep maintenance costs down.

Having picked a handy soaring site, telephone and book an appointment. But do not expect to find an elaborate organization. The sites and the organizations that go with them vary widely. If you are serious about learning, make a point of visiting several locations.

Few are as convenient for large numbers of people as Skysailing, at Fremont, Calif. between Route 17 and San Francisco Bay. Most are miles from anywhere, since remote areas are where the lift is good. But only a handful are as remote as Estrella, near Phoenix, Ariz., where the last five or six miles into the desert are along a dirt road.

The sites can have quite different characteristics. Wurtsboro, N.Y. is as bustling (one of the busiest

sailplane airports in the country) as Blairstown, N.J. is quiet. Both are less than two hours from Manhattan.

Book a trial lesson rather than a simple thrill ride. The lesson at a well-organized school should include some ground instruction to tell you before you fly what the instruments do and why, what the controls do and what is going to happen. You are not likely to remember much in detail about your first 20-to-25-minute flight, but (especially if you are not already a pilot) you will never learn so much about gliding in such a short time.

You will likely fly in the ubiquitous Schweizer 2-33, a large and very comforting tub, not one of those sleek glass sledges. And, of course, there's an instructor with you.

Don't be surprised if the first flight hooks you—it does many would-be pilots. Indeed, Margaret Black, 30, who has set up

Komet Flight Motors to import small Italian engines for motorgliders, decided she wanted to become a pilot herself. "At first it did not make much sense," she confesses, learning to fly and launching her company at the same time. Though still some way from soloing, she hopes soon to get her first soaring badge. Be warned: Soaring can be contagious.

To contact the Soaring Society of America, write P.O. Box 66071, Los Angeles, Calif. 90066. Tel: (213) 390-4447.—H.B.



Student pilot Margaret Black

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av. per cigarette. FTC Report Dec. '81

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(A relative injury claim frequency of 100 is average)

Make	Body	Size	Relative Frequency
✓ Oldsmobile Custom Cruiser	S.W.	I	58
✓ Oldsmobile Toronado	Spec.	I	58
✓ Buick Estate	S.W.	I	62
✓ Oldsmobile 98	4 Dr.	I	62
✓ Oldsmobile Cutlass	S.W.	C	65
✓ Oldsmobile Omega	4 Dr.	SC	66
✓ Chevrolet Caprice	S.W.	I	67
✓ Pontiac Bonneville	S.W.	I	67
✓ Oldsmobile Delta 88	4 Dr.	I	69
✓ Pontiac Catalina	4 Dr.	I	69
✓ Buick LeSabre	4 Dr.	I	73
□ Mercury Marquis	4 Dr.	I	74
✓ Buick Century	S.W.	C	76
✓ Chevrolet Malibu	S.W.	C	78
□ Mercury Zephyr	S.W.	SC	80
✓ Buick Century	4 Dr.	C	83
✓ Chevrolet Citation	4 Dr.	SC	83
□ Dodge Aspen	4 Dr.	I	84
□ Plymouth Volare	S.W.	I	87

1978-80 models with the worst insurance injury claim experience*

(A relative injury claim frequency of 100 is average)

Make	Body	Size	Relative Frequency
□ Dodge Challenger†	2 Dr.	S	16
□ Fiat Brava	**	S	15
□ Toyota Corolla Tercel†	2 Dr.	S	15
□ Datsun 200SX†	2 Dr.	SS	15
□ Plymouth Sapporo†	2 Dr.	S	14
□ Plymouth Arrow†	2 Dr.	SS	14
□ Dodge Omni	2 Dr.	S	14
□ Honda Prelude†	2 Dr.	SS	14
□ Mazda GLC†	**	SS	13
□ Honda Civic†	2 Dr.	SS	13
□ Datsun 210†	**	SS	13
□ Plymouth Champ†	2 Dr.	SS	13
□ Mazda RX-7†	Sport	SS	13
□ Mercury Bobcat	2 Dr.	SS	13
□ Toyota Corolla†	**	SS	13
□ Ford Mustang	2 Dr.	S	12
□ Honda Civic†	S.W.	SS	11

†Japanese made

on doing our part by continuing to do extensive research on safety; research that includes analysis of actual accidents, as well as efforts to discover even better ways to measure human impact tolerance.

The GM safety team has developed most of the technology for crash testing and research



WE'RE THE B

*Source: Insurance Institute for Highway Safety. I = Intermediate; C = Compact; SC = Small Compact; S = Subcompact; SS = Small Subcompact. Body Styles: SW = Station Wagon; S = Sport; Specialty = Not defined.

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which helps increase our understanding of how much force a human body might be subjected to during a crash.

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ST GM EVER

Personal Affairs

to 55:1, which means they can go 55 feet forward for every foot of altitude lost; from 3,000 feet up, with no wind, they would glide no less than 31 miles before hitting the ground.

Obviously, they are not cheap, and neither is soaring. By comparison with other grown-ups' toys, however, soaring is not excessively expensive. Brian Utley's ASW 20, which has a 49-foot wingspan, cost around \$30,000 including its instruments and trailer. His new machine—an ASW 22 with up to 80 feet wingspan—will cost \$60,000. Dunki's DG-202 cost around \$30,000 for the 55-foot-wing-span version.

But learning to fly gliders is not as expensive as power flying—about half as much to obtain a license. It varies with the region of the country, the weather and so on, but in California it costs around \$800 to \$900 to reach that all-important milestone of the first solo flight. In the East the estimates vary from around that figure down to \$500 or so at Tom Knauff's operation at Julian, Penna. It should cost about the same again to bring your skills to a point where you will get your glider license.

Nor is it a sport where youth counts. The 15-meter class National contest held at Elmira, N.Y. in July had a large number of graying heads among the competitors. If you are rea-



Erwin Dunki buttoned up and ready to go. His DG-202 has a 55-foot wingspan and cost about \$30,000. Aloft, it travels 55 feet per foot of drop.

sonably fit, sufficiently coordinated and have fairly good eyesight, you will pass muster. It is not even necessary to have a full medical before you begin—though it is wise once you have started flying seriously.

Yet it is surprising that so few Americans fly sailplanes. The climate is suitable and there is all that air space. But, according to the Federal Aviation Administration, there are only around 20,000 licensed glider pilots and under 4,000 registered sailplanes in America.

One possible reason is that it can be time-consuming. One waits for the weather, waits for the tow plane and, if a trainee, waits for one's turn to fly.



It takes about 15 minutes to affix wings and tailplane.

Be warned: Appointments for lessons easily slip behind schedule. It can be hard on the rest of the family.

Soarers' spouses are, however, a dedicated bunch. They, or some other unpaid helpers, are essential to help take the machine out of its trailer and assemble it. And they have to be ready to drive, complete with 25-foot trailer, to pick up their spouses should they run out of lift.

Dunki and his wife, Erna, have a small weekend cottage across the road from the glider port at Wurtsboro, some 90 miles north of New York City. She sits by the two-way radio while her husband flies. He went up earlier than usual on the day of our photo session and, for a while, she was worried. "I don't like him going up much before 1 o'clock, when thermals get stronger," she explains. "I like him to stay up a good long time. It keeps him happy all week."

Practical things, like work, can get in the way of good soaring. When IBM was having problems with its then-new System 38, Utley managed to fly just 50 hours that year, against the 150-plus hours he usually manages. But beware, soaring can be addictive. Barrant Merrill, 52, a onetime partner at Morgan Stanley, was chairman of the securities firm Pershing until the end of May. He has quit and moved to Sun Valley, Idaho, where he remains a consultant to Pershing. Reasons: to avoid a three-hour-a-day commute to Wall Street and to allow more time for soaring.

Merrill's machine, a Finnish Pik 20, is unusual in that it has a small engine that, with 15 cranks of a handle, folds down, once aloft, into the rear fuselage. That gives him the best of both worlds—power and a high-performance glider. And it makes him independent of tow planes and of being forced to land "out," away from his airfield, in some farmer's field if the lift should disappear. Note: Setting down your sailplane away from an airport is not as tricky as with fixed-wing aircraft, of course. The pilot has a lot more time to pick a spot to set down. While pilots most often land where they took off, landing in a farmer's field or on a ball field or some other open area is usually not dangerous. Pilots do carry liability coverage for any damage they might cause (e.g., to crops) and for damaging their own aircraft.

Flying with an engine is a trend that is emerging, and it is one that should make the sport more practical without removing the timeless challenge of man against the elements.

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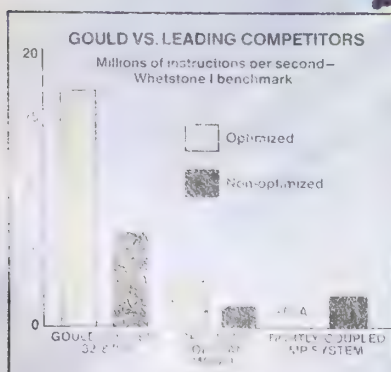
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"Gould." ➤



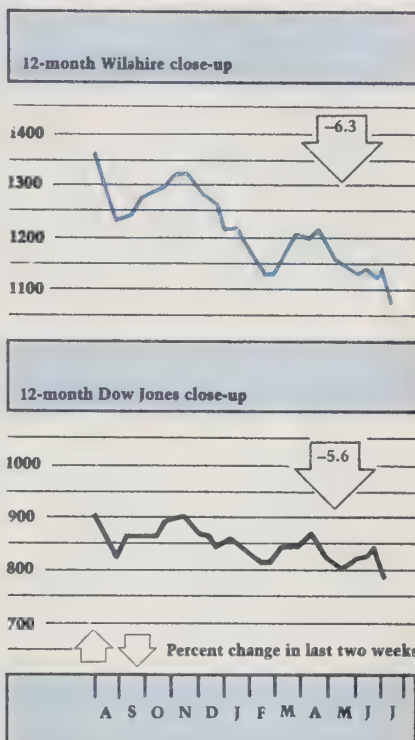
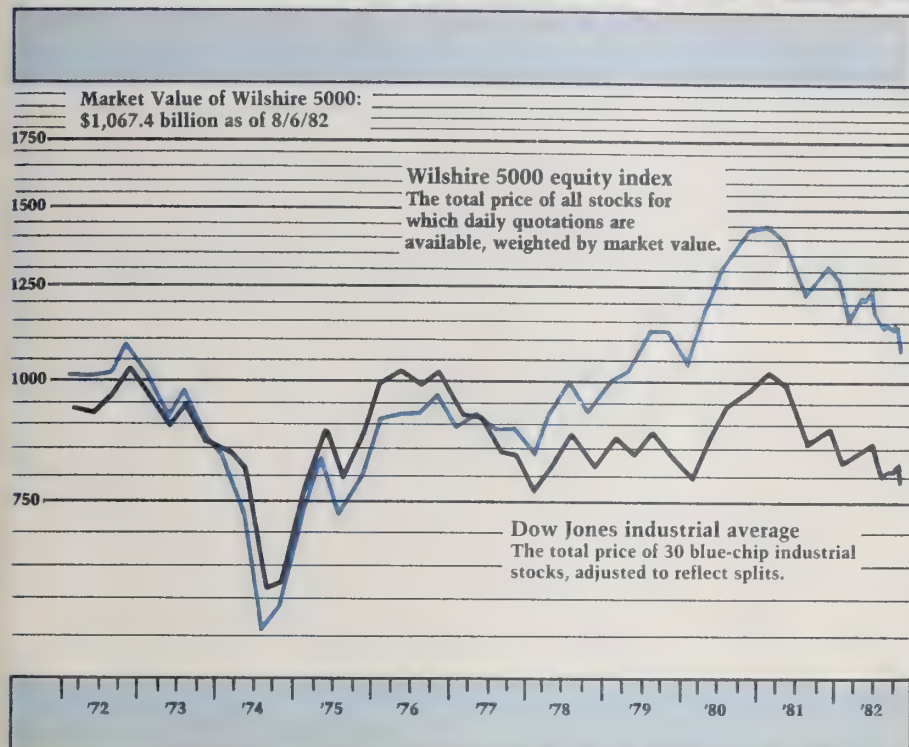
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GOULD

Electronics & Electrical Products

The Forbes/Wilshire 5000 Review



More of the same. If there was any consolation in the market's sharp midsummer drop it is this: The volatile American Stock Exchange is holding better than either the Dow industrials or the broad-based Wilshire index. Over the most recent two weeks, the Wilshire was down 6.3% and the Dow was down 5.6%. The Amex, meanwhile, was off just 4.6%. During the four-week, it fared even better—declining a mere 1.4%. Once again, that's the best relative performance.

In contrast, the New York Stock Exchange has been the weakest segment of the recent market, especially over the

last two weeks. During the last ten days of trading NYSE stocks declined 6.5%. At least part of this weakness stems from the breakdown of the proposed merger between Gulf Oil and Cities Service. In the wake of that news, arbitrageurs, faced with potentially large losses, helped spark heavy selling of selected NYSE issues.

All market focus groups declined during the last month, but the setbacks were less than those of the broader averages. The heaviest selling was in middle-of-the-road stocks, while both the more speculative and undervalued groups performed slightly better than the market.

Close-up On The Equity Markets

Performance of five leading indexes					
Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	-4.3	-3.7	-4.6	-1.4	-2.7
in last 52 weeks	-23.4	-16.8	-22.1	-33.7	-22.6

Stock performance based on five key investor yardsticks										
Percent change	Volatility*		P/E multiple		Dividend yield		Growth profile†		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	-3.3	-0.1	-2.7	-0.9	-1.3	-0.2	-4.0	-0.4	-3.7	-0.5
in last 52 weeks	-21.4	-0.7	-30.1	-6.8	-3.5	-11.8	-19.4	-6.4	-21.0	-17.6

*A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.

†A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

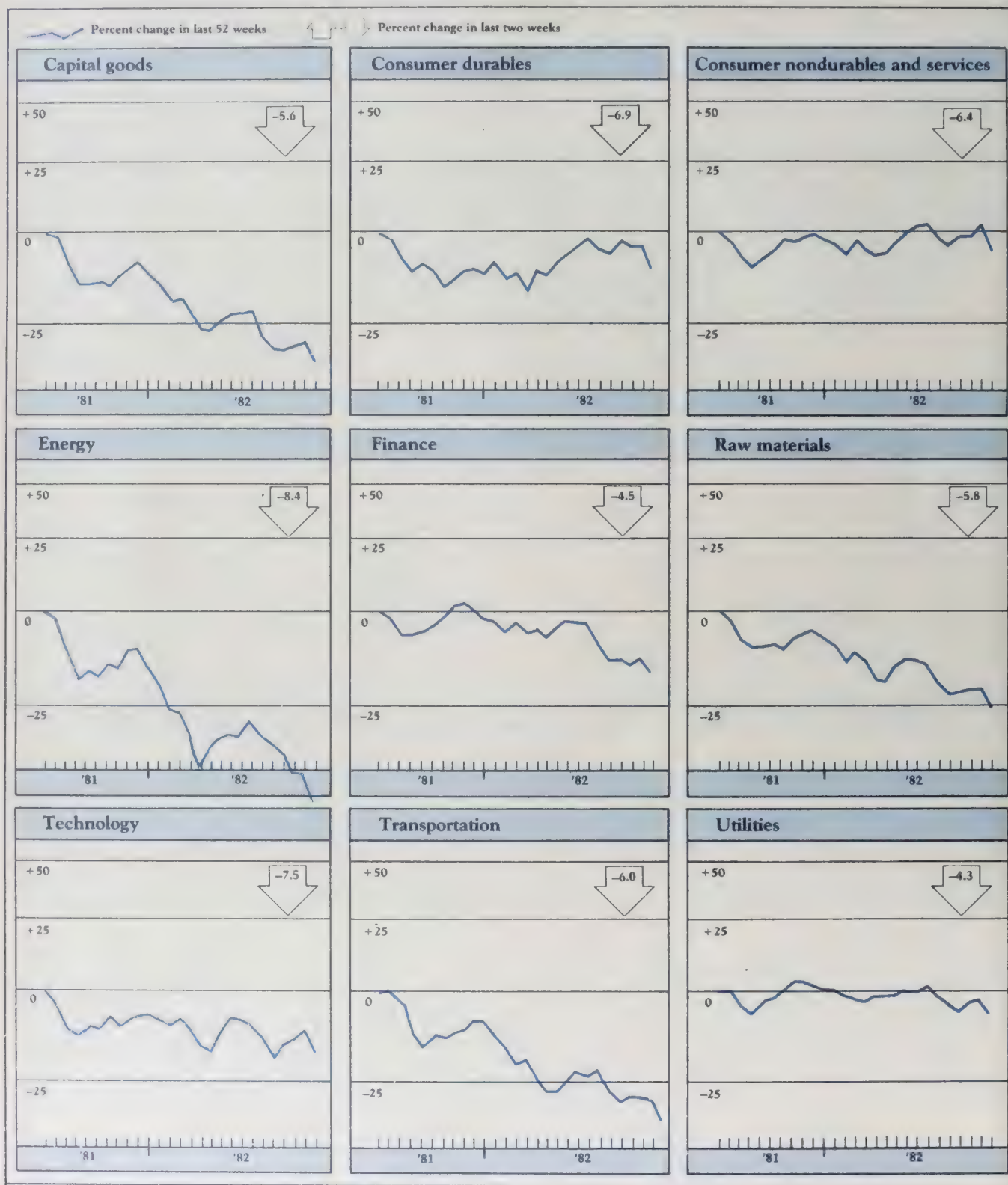
Note: All data for periods ending 8/6/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Downtown express. All sectors suffered losses during the recent two- and four-week periods. The weakest group: energy stocks, off 8.4% over the last two weeks. Close behind are technology issues, down 7.5%, and consumer durables, behind 6.9%. The most resistance came from the utilities stocks. These defensive issues had been leading a weak market for more than a year. But news that pending tax legislation is likely to curtail the favorable treat-

ment of utility dividends caused the group to fall 4.3%.

It now appears that the 1982 summer rally was only wishful thinking. All nine sectors are lower than they were late in May. It has been a particularly rough summer for energy stocks, which are off more than 18% since May. Consumer nondurables and services issues and technology issues were the strongest groups over this stretch. They were off 2.8% and 4.9%, respectively.



Note: All data for periods ending 8/6/82. Prepared by Wilshire Associates, Santa Monica, Calif

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Independent Insurance Agent
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This has been a great market for sell recommendations. Why are there so few of them?

Three brave men

By Barbara Rudolph

INVESTING IS BY NATURE an optimistic pursuit. Anyone who buys stock thinks there are better tomorrows ahead and wants his share of the action. That's why there's something vaguely subversive about short selling.

That's also why the investment analyst who brags that he caught a stock just before it fell apart is far scarcer than the dozens who claim to have recommended IBM in 1963. "Everyone says he wants to hear sell recommendations, but the fact is that it's a buy-side business," says one research professional. "If we thought the market wasn't going anywhere, we'd be out of jobs."

That's why brokers tend to use fuzzy euphemisms when it's time to sell: "off our recommended list" or "okay to sell." Translation: Bail out if you want to, but don't blame us if the stock goes up.

There are other reasons, too, for this bias toward buying. Analysts often develop an emotional attachment to their specialties. It's *my* industry, *my* company, I've been on the chairman's boat. At some firms it's quietly understood that negative reports won't be appreciated because of conflicts with investment banking activities or in-house portfolio positions. "There are places where I could have said 'sell' on Datapoint," says Bear, Stearns analyst George Elling, "and I would have gotten fired for it."

Then there is investor psychology. Brokers find that investors will forgive them more easily for a buy recommendation that goes wrong than for a sell recommendation that goes wrong. Despite all this, some intrepid souls put their pessimism on the line.

Here are three Wall Street analysts

who said "sell" loudly and clearly over the past year.

Stepping out of fertilizer

Bache special-situations analyst Abraham Karp was the only one manning the lifeboats on Williams Cos., the \$2 billion energy and fertilizer company whose stock collapsed earlier this year. When the soft-spoken Wall Street veteran issued his sell recommendation last November, Williams was trading at 29⅜. Today it is trading around 14.

Williams had been a classic asset play, with rumors that a takeover was imminent. While stated book value was only \$35 a share, optimistic analysts projected the actual value of Williams' underlying assets at closer to \$50 a share. Last year's earnings were pegged at around \$4.25

a share, but Karp expected only \$3.15. The actual figure was \$3.32.

Karp saw through the glowing projections and takeover rumors and remembered that the fertilizer business is basically cyclical. He knew that Williams' largest division, Agrico Chemical, normally the largest contributor to earnings, posted a deficit for the third quarter of 1981. That was common knowledge, but other analysts discounted it. Karp noted, too, that "the outlook for fertilizer is poor and will continue poor into 1983."

"Assets are only good if someone wants to buy them," Karp says.

Perhaps it was easier for Karp to go against the established grain on Williams because he has spent most of his 15-year career out of the mainstream at smaller brokerage houses, including Dominick & Dominick and Goldwater & Valenti. Despite Williams' 50% price decline since his sell recommendation, Karp isn't buying yet. "I'm waiting to see a chance that the fertilizer business will come back, within even six months," says Karp. "But right now there's just no indication of that happening."

For now, he is steering clear of industries that are dependent on the strength of the economy. So what's left? Well, Karp likes death-related companies like Service Corp. International (see p. 68) and Hillenbrand Industries, which makes caskets.

Backing away from building

E.F. Hutton analyst John Osterweis began his career with a splash—a very smart sell on Boise Cascade, which tumbled from 76 to 40 in 1970. "It



Bache's Abe Karp

"There was no guru in Tibet. Anyone could draw the same conclusions."

Many, many glamour stocks of the 70's have lost their glitter. And just how blue are the blue chips?

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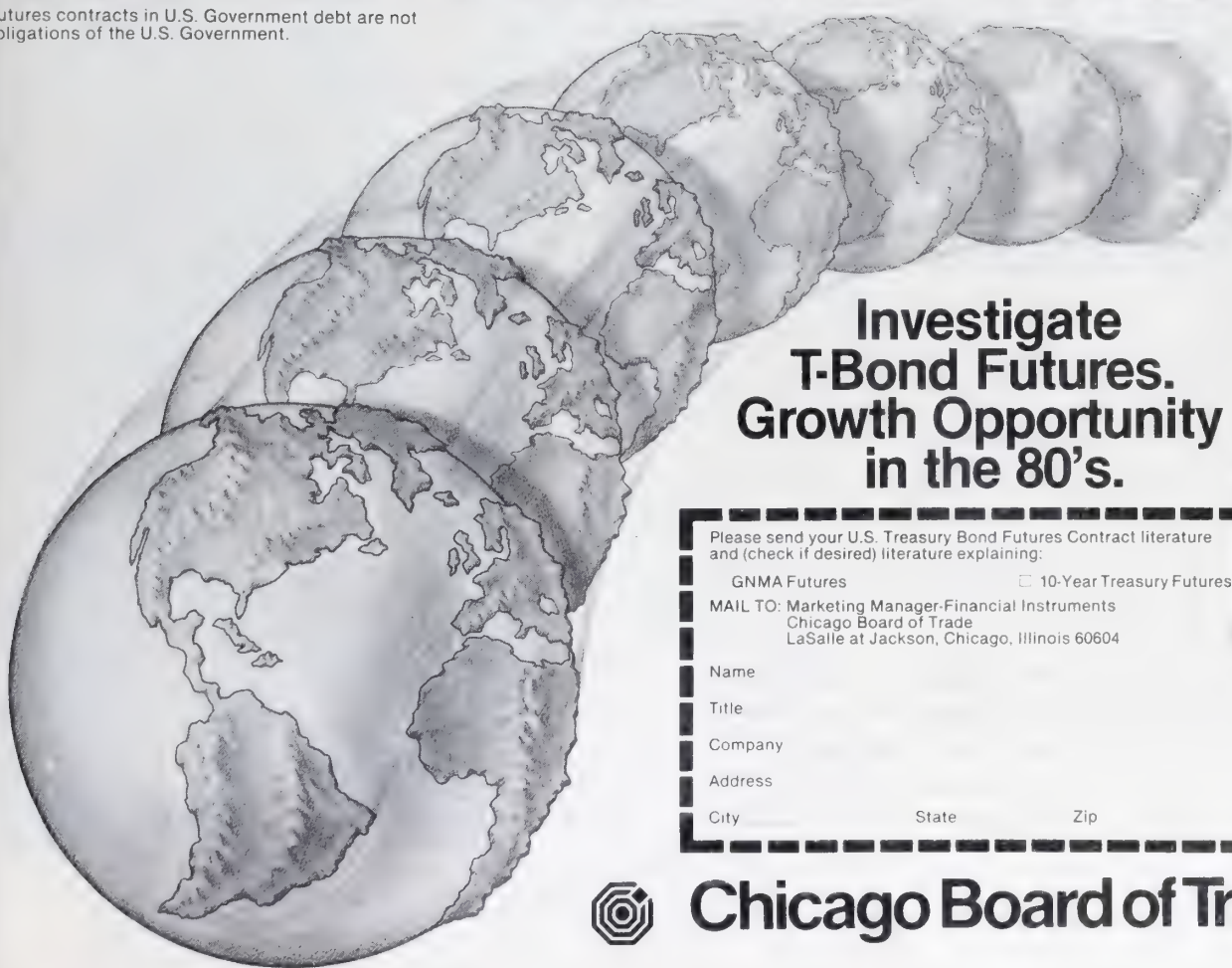
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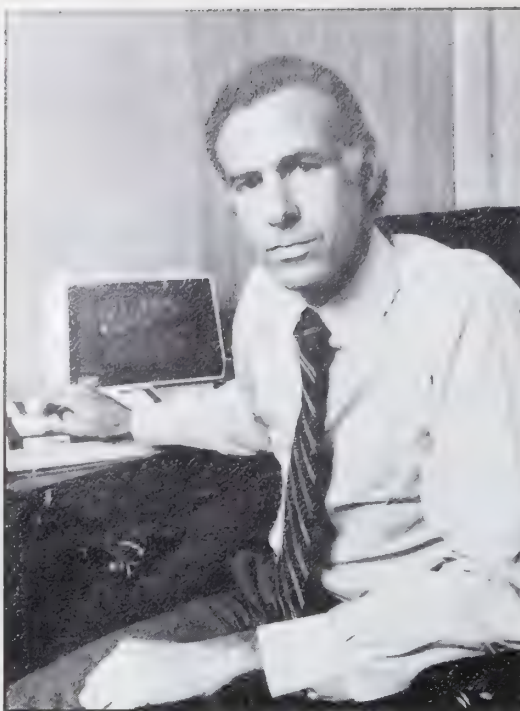
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E.F. Hutton's John Osterweis

At heart, the new kid on the block.

was easy for me," says the 39-year-old San Francisco-based analyst. "I was the new boy on the block, and I could take a fresh look."

What's unusual is that Osterweis has managed to preserve that talent. That's how he got out of Evans Products last December, when the stock was at 20. Today the Portland-based, \$1.5 billion building products company is selling at around 7.

Though Osterweis was not the first analyst to turn bearish on Evans—Dave Wilson at Shearson took it off his recommended list at the end of 1980—he was virtually alone in seeing the weaknesses of the company when the stock was close to its ten-year high of 26½. "Sales are deteriorating and interest costs are excessive," he wrote in December 1981.

Other analysts might have seen that, too—various Evans divisions were losing money by the fall of 1981—but they continued to see great promise in the possible merger with Sharon Steel, a company controlled by Victor Posner, which had taken a 43% position in Evans stock. A takeover seemed inevitable.

Osterweis, however, saw an equally plausible possibility: A proposed merger would falter and Evans stock would sink. That's exactly what happened. After Sharon and Evans announced a merger, shares in both companies fell. Government approval of the tax-free stock swap is still pending, but Evans shares are down over 70% from last year's high.

"I said sell because there was too much risk," Osterweis says. "Once Sharon's stake climbed to 43%, they were in a position to dictate the terms of the merger."

Osterweis is cool on Evans even if the merger goes through. At \$7 it's "hardly a panic sell," he admits. "After the merger, the company would be highly leveraged, and I am predicting an anemic recovery in early 1983." With that forecast, Osterweis is now buying companies with strong balance sheets, such as International Paper and Westvaco.

Short circuiting high tech

It pays to do your homework. Look at Bear, Stearns' George Elling, who put out an early sell call on Datapoint—in June 1981, when the stock was at 63, a far cry from its recent 12½.

"I spent seven, eight years developing contacts in the high-tech industry, talking to dozens of salesmen and end users," says the boyish 36-year-old analyst who talks like a machine gun. "When the company was still saying everything was going great, I began hearing the scuttlebutt."

The whispers turned into anguished cries when institutional investors began dumping Datapoint in February. Earnings fell 15%, and its shares tumbled to 35. Datapoint traded in the low 30s until the news got worse: In the third fiscal quarter the company lost \$23 million. Then came reports of lower revenues—as supposedly firm sales collapsed—and top executives resigned. The company's stock hit a low of 10⅞ in June.

Elling didn't imagine such disasters a year ago. He thought the whole high-tech group was overpriced, and his sell on Datapoint was part of an industrywide recommendation. But he was getting a cumulative sense that the company was far from its stated revenue goals, and he did his legwork.

Elling, for example, investigated ISX, Datapoint's much ballyhooed new private branch exchange for telephones and data terminals. Officially, the system was to be shipped in Febru-

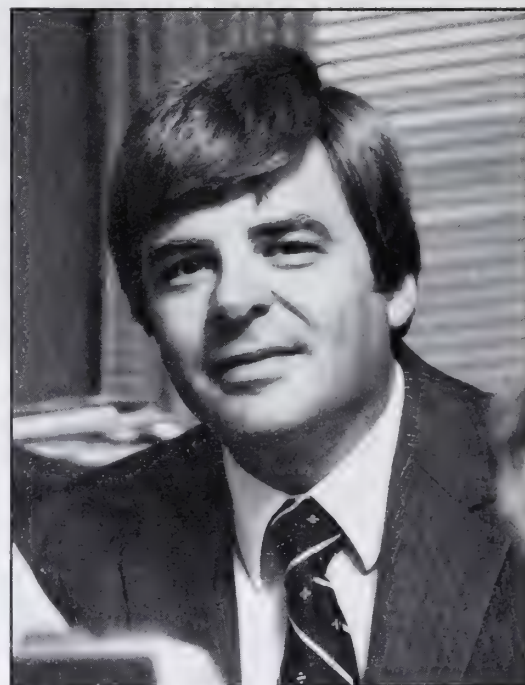
ary 1982, but when Elling spoke with one of ISX' first customers, Fidelity Union Life of Dallas, he heard something more: While the system would be shipped in February, it wouldn't be operational until June. In fact, none of the systems are fully operational even now. A small but telling piece of information, Elling thought.

Elling changed to a hold when the stock hit 30. That was clearly overoptimism, and he regrets that he didn't question even more salesmen. "If you had told me a year ago that Datapoint would be selling at 11, I never would have believed you," he sighs.

If you think Datapoint looks cheap now, Elling doesn't. "I can't make earnings estimates for them with any kind of confidence," he says.

In fact, Elling is still bearish on the technology group. Bear, Stearns is pessimistic about the chances of an economic recovery, and Elling's end-user contacts give him no sense of an imminent turnaround. Still, he has buys out on IBM—the perennial exception to the rule—and Pitney Bowes. "Its distribution network has great potential," he says. Also, Elling feels that the stock, at 32, is "very cheap."

What's to be learned from these three men's experience? Only this: It pays to think for yourself and not just accept authority. Abe Karp says it very well: "There was no guru in Tibet. Anyone could have taken the same information and drawn the same conclusions I did." ■



Bear, Stearns' George Elling
He heard the scuttlebutt.

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airplane manufacturer in the western world.

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The Money Men

Here are three self-taught stock pickers who parlayed go-it-alone investment theories into highly profitable second careers.

Cottage money men

By Maurice Barnfather

WHAT DO A DOCTOR, an attorney and an aeronautical engineer who once piloted Boeing 314s for Pan American have in common? They all manage investment portfolios with performance records that most Wall Street professionals would envy.

Their collective message, in effect, is: Avoid the crowds, find your own

special style, then stick to it. Don't be swayed by every piece of news and don't be afraid to go against the voices of authority. "People who lack discipline do poorly," says Milwaukee attorney Ronald Sadoff, who has been managing money full time since 1978. Over four years Sadoff's accounts have appreciated by 65%—largely because he has had the discipline to stay out of the market, once for a stretch of 36 months.

Earl Zazove, who left his Chicago medical practice in 1971 to become a full-time investor, is similarly successful. Zazove's gains work out to be an average 15% annually over the past five-year period. His specialty: convertible securities.

Then there's James Rea, a onetime aeronautical engineer. He works out of his plush Bel Air home, plays jazz piano and surfs every day. Rea's six-year-old limited partnership investment company boasts average 15½% annual asset gains. His golden rule is never to put money into companies that owe more than they are worth. "That protects us on the downside in situations like today's," Rea explains.

Better than these performances you can hardly do. Yet each of these latter-day money men got the Midas touch almost by accident. Take Zazove. To be sure, he had dabbled in securities since he realized at 15 that the money he was earning as a part-time dishwasher was languishing in a savings account. "The bank's 2% or 2½% didn't seem exciting," he recalls.

Zazove practiced medicine for 25 years and didn't manage a nickel of anyone else's funds until 1969, when the widow of a friend asked him for advice on what to do with her insurance money. "She knew from her late husband that I was very interested in investments," he explains. "So after full disclosure that I was simply an experienced investor, and not necessarily an outstanding one, I began handling her portfolio." Through a combination of personal recommendations and referrals from brokers with whom he deals, he has 50 to 60 clients today. He sold his medical practice in 1971—and manages money full time.

Ronald Sadoff became dissatisfied



Ronald Sadoff
"Don't go hard and you get into trouble."

with the law much more quickly. A graduate of Marquette Law School, he practiced only three years before deciding that the stock market was "more interesting, fascinating, creative." After a ten-year brokerage career with The Milwaukee Co. he struck out on his own four years ago and now manages about \$30 million. Like Zazove and Rea, who also stayed put when switching careers, Sadoff preferred to work at home. "It's much better to be away from the mass psychology on Wall Street," he explains. "I'd go one step further and say the best place to manage money would be from the back of a yacht in the Caribbean or Acapulco Bay."

James Buchanan Rea had parlayed his engineering degree into a consulting career by 1974, but that meant traveling all over the world. "I decided it wasn't good for my family," says Rea. "So I resigned to concentrate on my hobby—investing."

Rea also had a little help from his friends. "John Burke, who was running Automation Industries, said, 'Jim, take some of my money,'" he recalls. "Justin Dart gave me some of his money, and pretty soon I had maybe 20 or 30 people."

In 1974 came the event that changed his life. A friend sent Rea a copy of Benjamin Graham's *Renaissance of Value*. Sensing a kindred spirit, Rea wrote to Graham, including a copy of a computer printout showing companies he considered ripe for acquisition. The two men met and became friends very quickly. "We found that our criteria were very similar," says Rea, who has formed a mutual fund this year out of his \$3.5 million limited partnership investment company—Rea-Graham Fund Inc.

Sadoff's law

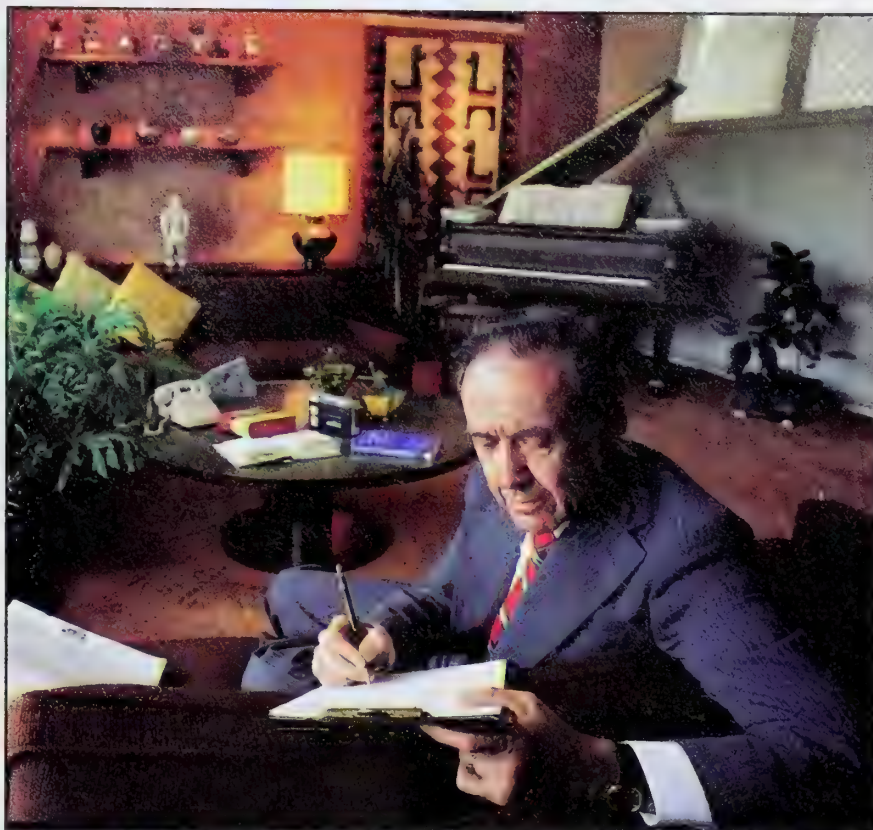
"Push too hard and you get into trouble" is Ronald Sadoff's approach to investment. Certainly no one would ever accuse Sadoff of being pushy. He has kept the money he manages out of the market for over three years, preferring Treasury bills, money market funds and cash equivalents earning high rates of interest. Apparently it works.

Sadoff has never been out of the market this long before. Says he wistfully: "Nobody wants to get back in more than I. It's my real love." But his head is ruling his heart. Why? Take a look at the four criteria that determine his view of the market. Sadoff dubs them "Environmental Factors."

Sadoff's first indicator is what he calls the monetary environment, his

Earl Zazove

"We have an occasional spectacular winner, but no spectacular losers."



estimate of whether the Federal Reserve is bullish or bearish. "What the Fed does today impacts upon the economy and the stock and bond markets nine months from now," says Sadoff. "Invest with the Fed, not against them." When the Fed funds rate falls below long-term interest rates on bonds, this indicator turns positive for Sadoff. For the first time since spring of 1980 this recently happened, so by Sadoff's measure Fed policy is now bullish for Wall Street.

Next Sadoff measures the psychological environment, an evaluation of how "smart money" and "dumb money" are being deployed. In Sadoff's world smart money is insiders buying an industry sector—what's happening now in textiles and retailing. He sees institutions, on the other hand, as dumb money and tries to evaluate their moves accordingly. This formula looks bearish to him right now.

Sadoff then attempts a bit of quantitative analysis, to assess what he calls the technical environment. He charts the number of advancing and declining stocks, those that hit new highs and lows and other factors. This way he establishes trend lines, which he then interprets as other chartists do. Present reading? Bearish.

Finally, Sadoff looks at the economic business cycle environment, which

currently suggests a neutral or bearish stance to the market.

Sadoff stays out of the market until all of his four indicators are positive. "An odd thing happened in the spring of 1980," admits Sadoff. "Two out of four indicators turned positive. That left me with half a loaf of bread. So I came back into the market for some clients who were aggressive." He sighs. "It was only a six-month rally."

Sadoff says he manages for low risk, high potential. He looks for industries that have been coming out of a long-term downtrend—at least four years, but more like nine to ten. Right now he likes textiles. In the last cycle he went for entertainment, movies, casinos, aerospace, machine tools. "Autos now look interesting," he says, "especially GM."

Sadoff says he can't predict the market, only read it. But for a moment he lets himself go. Once the current bear market ends, he says: "We're going to see an absolutely fantastic bull market, absolutely fantastic. Maybe soon."

Zazove's prescription

"Can you imagine a broker explaining it to a client over the telephone?" says Earl Zazove. He's talking about the convertible bond market. Con-

The Money Men

vertible bonds pay interest like ordinary bonds, but also give the holder the right to convert into common stock. It's the conversion option that makes them different.

Very different. "Few people deal in convertibles, and those that do are not always knowledgeable," claims Zazove. A pity. "An investor probably has his best chance to beat the market with convertible bonds," he says, explaining that it's not a huge market, so the institutions tend to find it too small to move around in.

Here's what he sees in convertible bonds: a higher cash flow [meaning the coupon attached, which is presently an average 10%] than the stock into which they convert. They're safer, ranking before common stock in the list of creditors.

Dull? Don't you believe it. If the common stock rises, the convertible bond will rise by the same amount, since its conversion value is linked to the price of the common.

But if the common stock goes down, the convertible won't dip below its investment value as a bond. Which means? "We have an occasion-

al spectacular winner, but there can't be spectacular losers." The result? "In the 1973-74 bear market my losses were considerably less than half the market," Zazove recalls.

Of course, it's not quite that simple. Valuing a bond requires the skillful use of yield curves and the like. "I and my assistants are always studying new concepts and possibilities," says Zazove, ticking off the factors that he takes into consideration: present interest rates; a yield differential on the bonds compared with its underlying stock; the S&P's rating of the bonds; the times of maturity; the volatility of the underlying stock; the terms of conversion. "We put all those together into a formula."

Right now some of Zazove's favorites include Citicorp, Georgia-Pacific, Economic Labs. "Inexperienced institutions are always moving prices too high or too low," he explains. "Few people know what they're doing in this market."

Rea's flight plan

"This is an especially good time for

Ben Graham's thinking," says James Rea. He believes in safety first, and his golden rule is that a company's total liabilities should not exceed a hard-nosed estimate of tangible book value. "It's a simpleminded criterion that protects you in conditions like today's," says Rea. Put another way: Companies should never owe more than they are worth.

Working together, Rea and Graham developed ten investment criteria. They then narrowed the methodology to emphasize what Rea calls earnings yield. If a stock sells for \$10, for example, and per-share profits are \$1.50, its earnings yield is 15%. Rea relates that figure to the return on average triple-A bonds and won't buy a stock unless its earnings yield is twice the bond rate. With today's tight money he wants 30% earnings yield for every dollar invested, which translates into a maximum P/E ratio of 3 1/3.

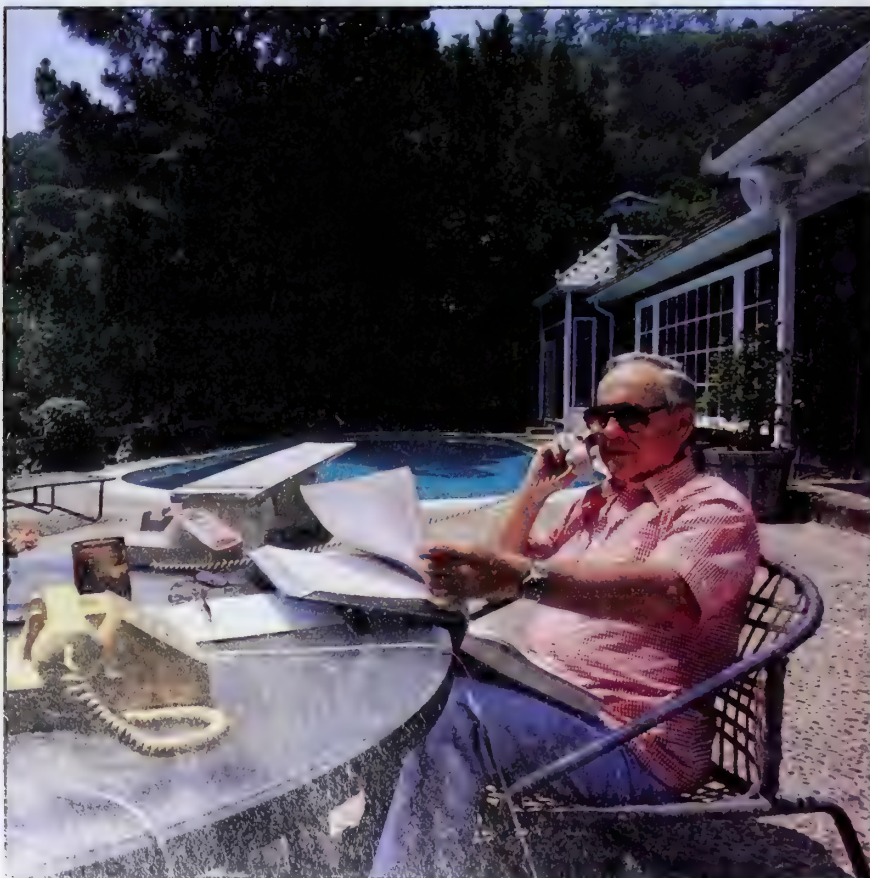
Another thing Rea looks for in companies is upward momentum in earnings. He explains: "Three years after Ben's death I found that companies with an earnings uptick when we bought them had risen 22%, while the companies with a downtick increased 15%," he recalls. "So if a company meets the basic criteria but has a downtick in earnings, I wait it out."

Rea will wait, too, for the 50% profit he wants before selling. "I ask myself, what would I pay for the stock now, and if it isn't selling at 50% above my estimation of its value, I wait to sell." How long? "Two years was my impatience time, but it's maybe three years or so now," he says. "I have become more patient with age."

Diversity is important to Rea. "That way you only need to be right most of the time, not all of the time," he explains.

Presently Rea likes banks and insurance companies. "The few sectors with an uptick in earnings." He holds 40 or 50 stocks in these industries, about 20% of his portfolio. Since Rea's debt-to-equity criteria won't work for financial companies, he selects them a different way. He calculates an average debt-to-equity ratio for banks and insurance companies and considers any company that ranks below that average.

Is there a lesson here? Perhaps. Rea, Sadoff and Zazove are all investing because they like the market, not simply to feed the wife and kids. Each man deserted the career for which he was educated in order to do what he really enjoyed. That's a choice that more often than not breeds success. ■



Ben Rea

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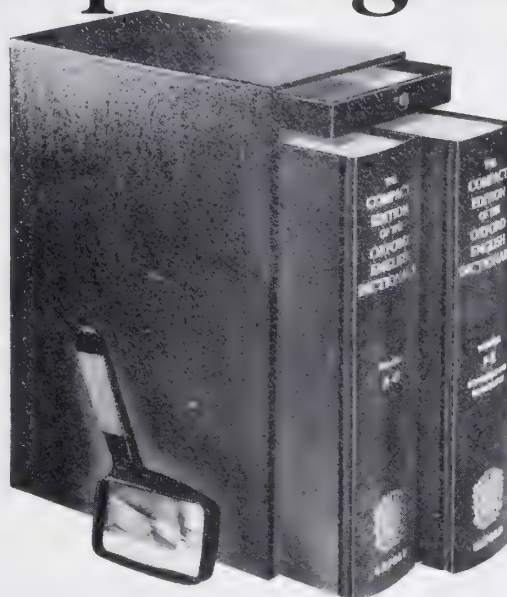
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Statistical Spotlight

Companies join the New York Stock Exchange for prestige and exposure. But beware the volatility of newly listed issues.

The Big Board is a roller coaster

By Steve Kichen
and Jon Schriber

IN THIS ELECTRONIC age—where it's fairly easy to buy, sell or get quotes on any security regardless of where it is traded—the New York Stock Exchange is still on top. Each year several dozen companies move up to the Big Board from the Amex, over-the-counter market or regional exchanges. Investors, however, would do well to buckle their seat belts during the transition period.

We studied the short-term performance of 81 stocks that began trading on the NYSE between January 1981 and June 1982, and we reached some surprising conclusions. You might think that a Big Board listing means improved stock performance. After all, management controls timing of the switch, wants to make a good show and thus will presumably move when earnings are on an uptick and business prospects are favorable.

Our statistics, however, indicate that just the opposite happens. In the

20 trading days after listing on the Big Board, our average issue lost 2.4%, while the NYSE index declined an average of only 1.0%. And 40 days after listing, the average new member was behind 2.0%, whereas the NYSE was behind 1.7%. The pattern also held for the 60-day period.

Why the slump? Over-the-counter advocates argue that it results from a loss of support by independent marketmakers. These firms, often regional brokerage houses, keep an inventory of shares of o-t-c companies that they trade—making a profit from the spread between bid and asked prices. When a company moves to the NYSE, marketmakers, no longer having an interest in supporting the stock price to protect their inventories, may dump their holdings.

All this isn't too surprising to sophisticated market watchers, but another aspect of our study might be. The data indicate that there is an increase in the volatility of a stock in the period immediately after it hits the Big Board. In our 40-day study, for example, 63 of 72 issues showed gains or losses much greater than that of the NYSE index. Whitehall Corp. gained 46%, while the market dropped 1.5%. And Inter-Regional Financial Group was up 39%, vs. a 3.5% decline in the market. In contrast, Sullair, a manufacturer of

These stocks went up fast

During their first 40 trading days on the New York Stock Exchange each of the 16 issues below significantly outperformed the overall market. Price volatility is measured by beta, shown in the last column.

A stock with a beta of 1.00 is likely to lose or gain 1 point when the market moves by the same amount. The higher the beta, the more volatile the stock in relation to the rest of the market.

Company/business	—Listing on NYSE—		—40 days after listing—			Recent price	Beta
	date	price	price	% change in price	% change NYSE index		
Whitehall Corp./industrial prods & svcs	6/4/82	16	23 $\frac{3}{8}$	46%	-1.5%	23 $\frac{3}{8}$	1.42
Inter-Regional Finl Grp/finance	9/2/81	13 $\frac{1}{2}$	18 $\frac{3}{8}$	39	-3.5	14 $\frac{1}{4}$	1.16
Williams Electronics/recreation	2/11/82	12 $\frac{1}{4}$	16 $\frac{1}{4}$	33	1.0	13	1.35
Commodore Intl/computer equip	3/6/81	18 $\frac{7}{8}$	23 $\frac{1}{4}$	26	1.4	33	1.57
Manor Care/health care services	8/28/81	16 $\frac{3}{8}$	20 $\frac{1}{2}$	25	-4.7	14 $\frac{5}{8}$	1.65
General DataComm Inds/telecommunications	2/26/81	14 $\frac{1}{2}$	17 $\frac{3}{8}$	22	4.9	9 $\frac{1}{4}$	1.57
United Cable Television/broadcasting	10/7/81	21 $\frac{1}{2}$	26	21	3.6	20 $\frac{3}{8}$	NA
Central Vermont Pub Svc/electric utility	10/28/81	14 $\frac{1}{4}$	17 $\frac{1}{8}$	20	2.6	16 $\frac{7}{8}$	0.40
Sysco Corp/food processing	1/20/81	14 $\frac{1}{2}$	16 $\frac{3}{8}$	17	1.8	24 $\frac{1}{8}$	1.13
Am Agronomics/food processing	3/23/81	6 $\frac{1}{8}$	7 $\frac{1}{8}$	16	-2.0	1 $\frac{3}{4}$	1.34
Alexander & Alex Svcs/insurance	1/25/82	25 $\frac{1}{4}$	29 $\frac{1}{2}$	15	-2.0	22 $\frac{1}{8}$	0.91
Hitachi Ltd/electronics	4/14/82	23 $\frac{1}{2}$	26 $\frac{7}{8}$	14	-5.6	22 $\frac{3}{8}$	0.99
Floating Point Systems/computer equip	10/6/81	20 $\frac{5}{8}$	23	12	4.9	20	1.38
Integrated Resources/finance	9/16/81	13 $\frac{1}{4}$	15 $\frac{1}{4}$	11	3.9	15 $\frac{1}{2}$	1.45
Peavey Co'/food processing	2/25/81	27 $\frac{1}{8}$	29 $\frac{3}{4}$	10	5.3	NA	NM
Ntl Convenience Stores/grocery stores	5/1/81	12 $\frac{1}{4}$	13 $\frac{3}{8}$	9	-0.2	17 $\frac{1}{4}$	1.17

NA, Not meaningful.

Sources: New York Stock Exchange; Wilshire Associates

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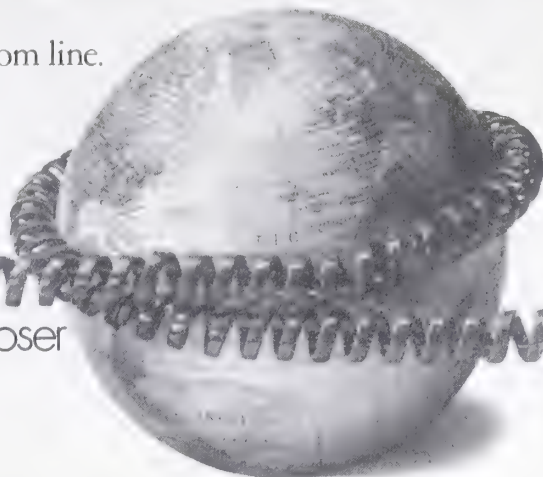
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	Discount	1.78	1.00	1pm-6pm
	Economy	1.42	.80	6pm-7am
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Statistical Spotlight

air compressors and industrial machinery, suffered a 32% loss, while the NYSE dropped only 0.4% and Marcade Group, an apparel retailer, was off 30%, vs. a 2.2% fall in the market.

The following tables show that these big short-term moves weren't isolated situations—and the phenomenon presents a puzzle for the efficient-market theorists. Why, if the

market is rational, should NYSE newcomers rise and fall so wildly when the averages were essentially going nowhere?

You can probably blame at least some of this curious phenomenon on computers. Many professional investors screen stocks on the basis of a variety of criteria and limit their work to the NYSE. That way a newly listed company is likely to pick up a significant following—both on the upside and the downside. Early on, at least,

these first-time shoppers can be very quick to judge: Informatics General started trading on the NYSE early in June. Shortly thereafter, quarterly earnings showed a 30% decline from 1981, and within 40 trading days the stock was off by 36%.

If you're intrigued by all this, look at the last table. It lists 13 companies that are about to join the NYSE or that joined within the past 40 market days. The next couple of months could be very exciting for them.

These stocks went down fast

Not all stocks are immediate beneficiaries of a move to the Big Board. The 16 issues below significantly underperformed the NYSE during their first 40 days of trading. The losses range from 36% to 16%. Like

their more successful counterparts in the table on page 162, most of these stocks are more volatile than the overall market and have high betas. Note: Many of these firms are in recession-sensitive industries.

Company/business	—Listing on NYSE—		—40 days after listing—			Recent price	Beta
	date	price	price	% change in price	% change NYSE index		
Informatics General /computer services	6/7/82	17	10 $\frac{1}{8}$	-36	-2.3	11 $\frac{1}{4}$	NA
Sullair Corp /industrial machinery	1/14/81	29 $\frac{1}{4}$	19 $\frac{3}{4}$	-32	-0.4	6 $\frac{1}{8}$	1.58
Marcade Group /retailing	1/26/82	3 $\frac{1}{4}$	2 $\frac{5}{8}$	-30	-2.2	1 $\frac{7}{8}$	1.27
Unit Drilling & Explor /oilfield svcs	11/18/81	24 $\frac{1}{2}$	17 $\frac{5}{8}$	-28	-3.1	6 $\frac{1}{8}$	1.48
Wainoco Oil /oil	4/7/81	28 $\frac{3}{8}$	20 $\frac{3}{8}$	-28	-1.7	6 $\frac{1}{4}$	1.42
Heritage Comm /broadcasting	5/19/82	10 $\frac{1}{4}$	7 $\frac{1}{2}$	-27	-4.0	8 $\frac{5}{8}$	1.59
Raychem Corp /electrical equip	6/2/82	52	40	-23	-4.2	40 $\frac{1}{4}$	1.35
Associated Madison /insurance	6/18/81	9 $\frac{1}{4}$	7 $\frac{1}{4}$	-22	0.8	NA	NM
Chicago & NW Transport /railroad	9/11/81	31 $\frac{1}{8}$	25	-20	1.4	14 $\frac{1}{2}$	1.38
Nevada S&Ls Assoc /savings and loans	2/8/82	8 $\frac{3}{8}$	6 $\frac{3}{4}$	-19	0.1	6	NA
Anta Corp /multicompany	11/10/81	18	14 $\frac{7}{8}$	-17	-2.9	11 $\frac{1}{8}$	1.46
Tannetics /refrig equip, paper prods	12/18/81	9 $\frac{3}{8}$	7 $\frac{7}{8}$	-16	-8.6	6 $\frac{7}{8}$	1.38
Allied Telephone /telecommunications	12/2/81	18 $\frac{1}{8}$	15 $\frac{1}{4}$	-16	-4.2	15 $\frac{3}{8}$	0.89
Payless Cashways /retailing	9/17/81	19 $\frac{7}{8}$	16 $\frac{3}{4}$	-16	5.7	22 $\frac{3}{8}$	1.30
Mitel Corp /telecommunications	5/18/81	34 $\frac{3}{8}$	29	-16	-1.5	18	1.08
Mellon National Corp /banking	7/10/81	38 $\frac{1}{2}$	32 $\frac{1}{2}$	-16	-7.5	29 $\frac{3}{8}$	0.79

*Acquired by American Can NA Not available NM Not meaningful

Sources: New York Stock Exchange, Wilsbire Associates

These stocks may go somewhere fast

The jury is still out on how these 13 newcomers to the New York Stock Exchange will fare during their initial weeks of trading. But judging by the betas on

several of these issues and the results of our earlier studies, these stocks are likely to be quite volatile over the next couple of weeks.

Company/business	—Listing on NYSE—		Recent price	—Latest 12-month—		Yield	Beta
	date	price		EPS	P/E		
Commercial Metals /metal fabricating	8/3/82	14	14 $\frac{1}{4}$	\$2.38	6	3.1%	1.43
Connecticut Energy /utility	7/29/82	19 $\frac{1}{4}$	19 $\frac{7}{8}$	3.57	6	13.1	0.72
Flowers Inds /food processing	8/4/82	14 $\frac{5}{8}$	14 $\frac{5}{8}$	1.72	9	3.8	1.16
General Housewares /housewares	6/18/82	8 $\frac{1}{2}$	8 $\frac{3}{8}$	1.58	5	1.4	1.21
Grolier /publishing	8/19/82*	—	1 $\frac{7}{16}$	1.00	2	—	1.21
LeaRonald /chemicals	6/28/82	14 $\frac{7}{8}$	13	1.59	8	3.1	1.69
The Limited /retailing	6/10/82	19 $\frac{7}{8}$	22 $\frac{1}{4}$	1.67	14	1.2	1.56
National Utls & Inds /utility	6/22/82	18 $\frac{1}{2}$	17 $\frac{7}{8}$	2.35	8	11.3	0.96
New Jersey Resources /natural gas	7/21/82	13 $\frac{1}{4}$	13 $\frac{1}{4}$	2.22	6	12.2	0.72
Nicolet Instrument /precision instruments	6/30/82	10 $\frac{1}{8}$	8 $\frac{1}{8}$	0.10	NM	3.0	1.57
Nutri/System /health care services	8/11/82*	—	31 $\frac{1}{2}$	2.50	13	1.0	NA
TDK Electronics /electronics	6/15/82	30	31 $\frac{1}{4}$	1.65	19	0.6	NA
Texas Amer Bancshares /banking	6/23/82	30	26 $\frac{1}{4}$	4.86	6	4.9	1.02

*Scheduled NA Not available NM Not meaningful

Sources: Wilsbire Associates, Standard & Poor's

While jeansmakers Levi Strauss and Blue Bell are unraveling, third-place V.F. is sewing up some stylish profit gains.

Try this on for size

By Thomas Jaffe

THE BLUE JEANS FAD is fading. After a decade of fast growth, demand for jeans may be up as little as 3% this year. Share prices of Levi Strauss and Blue Bell, the two leading manufacturers, are down sharply. At Levi, where capital expenditures reached \$300 million over the past three years, there is a classic overcapacity squeeze. Blue Bell, meanwhile, is still recovering from a recent management upheaval in addition to declining sales.

This makes the success of \$746 million (sales) V.F. Corp. all the more remarkable. V.F., which sells its jeans under the Lee label, is the industry's third-ranked supplier, with a mere 5% of the market. But the company is unfazed by current problems: Analysts are predicting earnings gains of more than 40% this year, and that comes on top of a 25% increase in 1981. V.F.'s stock price? It is up more

than 60% from its March level.

Lee's performance has nothing to do with fashion. Except for a few survivors, designer jeans have gone the way of bloomers. Nor is Lee replacing Levis or Blue Bell's Wranglers as America's best-loved jeans. Instead, what happened is that last year Levi decided to broaden its distribution channels beyond department and specialty stores to include mass merchandisers like Sears, Roebuck and J.C. Penney. Chains like R.H. Macy responded by deemphasizing the Levi line and stocking up on Lees instead.

V.F., based in Wyomissing, Penna., has made other changes to take advantage of this situation. From 1979 through 1982 it will have invested over \$90 million in capital improvements such as the installation of high-speed machinery for cutting, belt-looping and pocket-setting. And the company has long been recognized as having among the tightest inventory controls in the business.

For investors, of course, the question is just how long the Lee boomlet will last. "Is it a temporary phenomenon or a long-term one?" puzzles apparel analyst Jeffrey Edelman of Dean Witter Reynolds. "I don't have the answer." One thing Edelman is sure of, though, is his unwillingness to recommend the stocks of either Levi Strauss or Blue Bell. "Any earnings estimates I'd make on them," says he, "are tentative and hazy. On the other hand, with V.F. you still can make modest assumptions for Lee and come up with an undervalued stock."

Indeed, following V.F.'s market performance can be maddening. At the start of 1981 its shares sold for around \$27. By year-end they were up to \$45. Then came reports of Levi's troubles, and investors expected an industry-wide disaster. By March, V.F. shares had fallen to \$30. However, when V.F. surprised the market with two strong earnings quarters in a row, the price of its shares again rose. They are now close to \$50, an alltime high.

How come V.F. still trades at around 5 times estimated 1982 earnings? "It's not V.F.'s fault," says Brenda Gall of Merrill Lynch. "It's the apparel industry. Investors give those shares lower multiples when earnings are going well because they don't believe the profits can be sustained." Her 1983 estimate for V.F. is \$10 to \$10.50 a share—still impressive, though slower than the present growth track.

V.F.'s biggest problem at the moment is Lee's \$127 million-a-year international operation, which is losing money in Canada and the U.K. This, however, is more than offset by the Vanity Fair division, a successful manufacturer of women's underwear and nightgowns. To boot, V.F. has an especially strong balance sheet, with little long-term debt and plenty of cash. Gall estimates that, barring an acquisition, the company will finish the year with some \$115 million.

Both Gall and Edelman of Dean Witter see little downside risk in V.F. shares, short of a broad bear-market decline. On the other hand, they do see the potential for investors to stitch in some fashionable profits. Even if V.F. retains the apparel-stock stigma that holds its multiple below the market average, its shares could still sell at 6 or 7 times current earnings. Factor that into next year's estimates, and you see a potential price gain in the neighborhood of 20%. That never goes out of style. ■



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Borrowers are issuing long-term debt in an array of new flavors these days. Be sure the one you order really suits your taste.

MAKE MINE VANILLA

By Ben Weberman



When investors can get 12% and more on riskless short-term paper, why risk buying long-term bonds? That's why nearly \$216 billion—repeat billion—has crowded into money market funds. That is also why it has become almost impossible for businessmen to borrow long.

To do so, many are resorting to gimmicks. During one week in late July, 21 issues arrived, with only a few conventional 30-year mortgage bonds. Those who borrowed that way had to price fat premiums. Southwestern Public Service, for example, sold AA bonds, nonrefundable for five years, priced initially to yield 15.68%—2.5% more than comparable Treasury issues. Georgia Power, at the other end of the quality spectrum, had to set a yield of 16.40%, 3.15% more than Treasuries.

Much of the remainder of that week's borrowing involved creative debt marketing. Among the latest wrinkles are what some pros call "extendible" and others call "extendable" notes. Regardless of spelling, the new bonds have an intermediate-term maturity but may be turned in earlier for cash on specific dates. Sound good? Unfortunately—from the investor's standpoint—they may also be called for redemption earlier.

Furthermore, terms of these ex-

tendibles call for the interest rate to be adjusted periodically to prevailing market conditions. The 15% Champion International issue due in 1994, priced initially at 99.875 to yield 15.68%, will have its rate adjusted in 1985, 1987 and 1991 to carry a yield no less than 103% of three-year Treasury notes. In effect, Champion is selling a security rated BBB-plus that pays barely more than a three-year Treasury note.

Similarly, Aluminum Co. of America sold five-year extendible notes. For the first five years, they pay 15¼%. Every five years thereafter, rates will be adjusted to no less than 101% of five-year Treasury notes. They can be turned in for repayment in 1987 and again in 1992. In 1997 redemption is mandatory. The company, on the other hand, can call them at specified times from the fourth year of each extension period. Associates Corp. of North America and Ford Motor Credit carried the concept to the extreme, setting one-year extendible terms on final maturities of 1987 and 1985, respectively.

Other borrowers, who can't get money on attractive terms through the debt market, are being creative with preferred stock. A new type of preferred pays a dividend based on the highest level of the yield curve. Manufacturers Hanover Corp. and Northwest Bancorp., for example, recently offered such floating-rate securities. Dividends are adjusted to match three-month Treasury bills, 10- or 20-year constant maturity Treasury notes, whichever pays the highest. Aetna Life & Casualty Co. pegs the dividend on its new preferred at 90 basis points below the highest of those rates. Aetna recalculates its rate at the start of each quarter, but will never pay less than 7.50% or more than 15.25%.

There are some important drawbacks. Like most preferred stock, these issues appeal to corporations with excess cash because only 15% of intercorporate dividends are subject to corporate income tax. As a result, corporate buyers bid up prices to the point that the securities make bad investments for individuals who pay tax at conventional rates on dividends.

Other borrowers are trying still more unusual ways to corral long-term money, but now my point ought to be clear. Most of these "innovations" are either tailored for very specific institutional investors or simply put some glitter on conventional debt. In the debt market, more than most places these days, you get what you pay for.

That's why I think Treasury bonds—relatively at least—are particularly attractive now. For long-term investors, they are for all practical purposes noncallable, which gives the maximum opportunity for asset appreciation when interest rates fall. That has to happen eventually: Corporate liquidity is low, and permanent capital is sorely needed; at the same time, lenders are holding billions in short-term deposits. When the two sides can get together, the values available today will look remarkable indeed.

Profitable patriotism

The Treasury has proposed a new version of its Series EE savings bond that may make sense to hold. If approved, the bond will have a variable, market-based interest rate that is 85% of the average yield on outstanding five-year Treasury notes. Today, that works out to 11.26%.

Granted, this isn't the best yield around—but it is 2.26 percentage points better than existing EE bonds, plus it has some special tax advantages. The new bonds must be held for five years from the effective date to get the variable rate. They are a lot like the popular zero-coupon obligations—buy now and get principal back with interest at maturity. With a conventional zero, however, the IRS taxes imputed interest even though no payments are received. Not so with EE bonds, where interest is not taxable until it is actually redeemed. If you now hold EE bonds, you will automatically get the new, higher rates. ■

Ben Weberman is economics editor of FORBES magazine.

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Psychology & Investing

Americans are great believers in conspiracy theory. But they like to think the conspirators have things under control.

SUPPLY, DEMAND AND PARANOIA

By **Srully Blotnick**



If you are of the opinion that the prevailing rate of inflation is caused simply by impersonal forces, such as supply and demand, you are in the minority. Most educated and affluent Americans don't believe the process is that vague or unpredictable. In their view, someone is *causing* movement up or down. A conspiracy, one way or the other.

Take a look at the following comments and see for yourself how people arrive at that view. The first is from a 46-year-old furniture company executive. "We live in a planned economy," he said, with more resignation than bitterness, "same as the Russians and Chinese. The difference is that [here] you don't know who's doing the planning. People somewhere in Washington are pulling the strings. None of this [inflation] is an accident."

The second is from a 34-year-old insurance agent, who said irritably, "The economy is a government toy, to be regulated according to political needs."

The third is from a 39-year-old systems engineer at a major computer manufacturer: "It's nothing but a game. The big shots in the Reagan Administration want us to think that inflation is finally fin-

ished, so they can stay in office."

The comments may sound merely cynical, but they are more than that. It is the view of these people, indeed probably of most people, that the public is the target of a plot, the innocent victim of manipulation. The word "sinister" belongs to the 19th century, not the 20th; it is too quaint a term. But the word "conspiracy" strikes them as just right. Faceless people are pushing the buttons and pulling the levers. The world seems teeming with secret meetings and covert actions designed to accomplish ends that they consider questionable at best.

The manipulation theory goes as follows: The U.S. government *wanted* inflation to rise from 1965 on, because we conducted the Vietnam War without ever imposing a war tax to help pay for the deficits it generated. What better underhanded way is there to erase a good part of the deficit than for the government to let inflation run wild year after year? A premeditated act, calculated to erase an unmanageably large federal debt by screwing millions of holders of fixed-interest Treasury securities. A series of Presidents only *seemed* distressed, but were secretly pleased at the events of the last 17 years.

Whence, then, the current deflation? No mystery to the conspiracy theorists. When the American public had grown afraid of and fed up with chronically elevated rates of inflation, a different approach was called for. As the months of 1982 rolled by, and November elections began to draw near, the Administration had to make it appear as though real progress was being made on the inflation front. So, magically, the CPI was cut by more than 50%.

The people who hold this view aren't dropouts or illiterates. The

Dr. Srully Blotnick is a research psychologist and author of Getting Rich Your Own Way and Winning: The Psychology of Successful Investing.

MONEY & INVESTMENTS

three individuals quoted above are typical, in that all are college graduates and each earned in excess of \$58,000 in 1981. Nor are they lunatics; there is no sign of psychological disturbance plaguing their lives. Nevertheless, it is fair to say that there is a strikingly paranoid tone to many of their comments.

It was a historian, not a clinical psychologist, who first explained the readiness of Americans to see conspiracy everywhere. Nearly two decades ago, Richard Hofstadter wrote in *The Paranoid Style in American Politics*: "The clinical paranoid sees the hostile and conspiratorial world in which he feels himself to be living as directed specifically against him. The spokesman of the paranoid style finds it directed against a nation, a culture, a way of life whose fate affects not himself alone but millions of others. Insofar as he does not usually see himself singled out as the individual victim of a personal conspiracy, he is somewhat more rational. His sense that his political passions are unselfish and patriotic, in fact, goes far to intensify his feeling of righteousness and indignation." It's this phenomenon that leads Americans to accept a conspiracy view of inflation.

Why discuss the tendency among Americans to sense manipulation behind every major event? Because it helps explain the growing tension I find among the people I survey regularly. The level of anxiety has risen in the last few months and continues to rise. What seems to have triggered the anxiety was the sudden reversal of the CPI numbers—a return of double-digit levels after many months of lower rates. What this tells people is that the conspirators have lost control; the levers of power are broken. That's scary. The Administration wants to bring inflation down but can't. Better to be manipulated than to be living in a situation beyond human control.

The implications both for government policy and for the economy are enormous. People fearing loss of control, oppressed by anxiety, won't invest long term; that's going to make it harder to get—and keep—interest rates down. A public rendered anxious will speculate nervously, but not invest. ■

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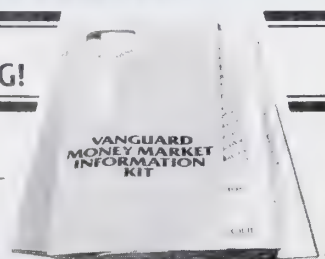
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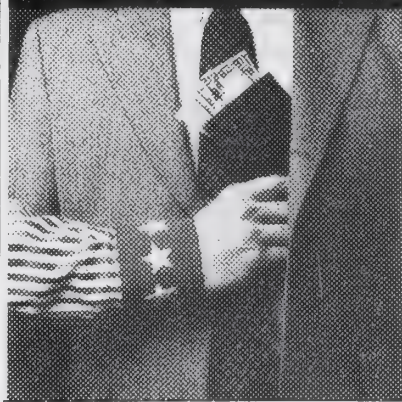
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ALTEX OIL CORPORATION

O
VERNAL, Utah, June 9—Altex Oil Corporation (ASE) announced today the completion of the Winter Valley #1 Federal well in Moffat County, Colorado flowing at a stabilized rate of 1.6 million cubic feet of gas per day through a 5/8th's inch choke from perforations in the Dakota Formation, 5380 to 5414 feet. Flowing tubing pressure during the 24 test was 180 pounds the Company said.

Altex Oil Corporation owns a 75% working interest reverting to a 40% working interest after payout in the Winter Valley #1 and surrounding 160 acre lease the Company said, and Brenex Oil Corporation (OTC) of Denver, operator, owns the remaining interest. Production is expected to commence from the well within three months according to Altex and drilling will commence immediately on 400 acres of leases in which the Company owns varying interests in the immediate area.

Separately, Altex disclosed that production from its 50% owned Lamb #13 oil well in Big Horn County, Wyoming has averaged 950 BOPD during the past 20 days compared with its previously modest production rate of about 45 BOPD. Low pressure coning has apparently reached a new zone of porosity that was not previously contributing to production the Company said. Production is from the Madison "B" zone at a depth of approximately 4,000 feet.

The Winter Valley #1 Federal, Moffat County, Colorado located in NW SW of Section 8, TWP 4N, R98W.

(Contact: Arben Jolley of Altex at P.O. Box 566, Vernal, Utah 84078. Phone: (801) 789-4550.)

AMETEK, INC.

AMETEK REPORTS STRONG SECOND QUARTER: FIRST HALF EARNINGS MATCH LAST YEAR'S RECORD

Company to Purchase West Coast Electronics Firm
PAOLI, PA., July 21, 1982—AMETEK, Inc. (NYSE-PSE) reported second quarter earnings only 4 percent under last year's all-time record, producing first half earnings equal to last year's six month totals. The diversified industrial manufacturer also announced plans to purchase a Los Angeles electronics firm.

Sales in the three months ended June 30th, 1982, totaled \$105.6 million and generated net income of \$7 million or 66 cents per share; in the same three month period last year, sales were the highest in any quarter of AMETEK's history at \$116.5 million, producing record net income of \$7.5 million or 69 cents per share. AMETEK said that while sales in the current quarter were lower than last year's strong performance, new orders had shown a slight improvement in each successful month of the quarter.

For the first six months, sales totaled \$216.3 million, about 5 percent below 1981's record first half sales of \$226.9 million. Earnings in the current half totaled \$14.2 million or \$1.30 per share, nearly unchanged from the \$14.1 million or \$1.30 per share earned in the same period of the previous year.

The improved profit margins that enabled AMETEK to maintain consistent earnings on reduced sales volume are the result of several factors, according to the company's President Robert L. Noland. "Our margins are benefiting from certain new, more profitable products such as solid state electronic instrument systems, and a stronger contribution from AMETEK's several new, more efficient plants and automated production, as well as a cost-saving program including a limited reduction in the workforce," Noland said. He noted that the company also benefited from a slightly lower tax rate of 48.2 percent in the current period compared to the 49.1 percent rate in the first half of last

Noland said that there were bright spots in the economy for AMETEK: "The winery equipment business—wine

presses, filters, storage and fermentation tanks produced by our Valley Foundry division in Fresno, California—is headed for a very good year," Noland said, "and the Straza division near San Diego, with two models of remote controlled unmanned work submarines produced for the offshore oil industry, is another strong business today. We are also very pleased with the performance of several of AMETEK's smaller divisions."

Earlier, AMETEK announced that it had reached an agreement to purchase Sawyer Industries Inc. of Arcadia, (Los Angeles) California, a manufacturer of electronic power supplies and motors, for approximately \$4 million in cash. Sawyer estimates its sales will be approximately \$12 million in its current fiscal year which ends September 30th.

With approximately 200 employees in 40,000 square feet of leased plant, Sawyer produces motors for both military and commercial aerospace applications, and is a leading manufacturer of electronic power supplies used in cable television and military systems. AMETEK, a diversified industrial manufacturer which has been listed on the New York Stock Exchange since 1930 had sales last year of \$448 million. The company has twelve other manufacturing plants in California.

Last month (on June 22nd, 1982) AMETEK made a cash purchase of the Cox Instrument division of Lynch Corporation in Detroit, Michigan.

	3 Mos. Ended June 30	1981	6 Mos. Ended June 30	1981
Net sales	\$105,592,000	\$116,540,000	\$216,250,000	\$226,873,000
Net income	7,140,000	7,467,000	14,152,000	14,061,000
Earnings per share	\$.66	\$.69	\$ 1.30	\$ 1.30
Dividends per share			\$.60	\$.50
Average shares outstanding			10,895,531	10,832,802

In the past four consecutive quarters AMETEK has earned \$2.44 per share.

(Contact: Darrah E. Ribble, Jr., AMETEK, Inc., Station Square Two, Paoli, PA 19301. Phone: (215) 647-2121.)

ARIZONA SILVER CORPORATION (ARIZONA) O-V CONTINENTAL SILVER CORP. (CONTINENTAL) O-V JOINT NEWS RELEASE

VANCOUVER, B.C., Canada, August 2, 1982—Further to the Corporate Report Update on Arizona/Continental in the July 5, 1982 issue of Forbes, Arizona/Continental are each proceeding with a Private Placement Financing scheduled for completion by August 26, 1982. Arizona will derive \$1,125,000 (CDN) and Continental \$900,000 (CDN) upon completion of this Private Placement.

In July, 1982 Arizona/Continental received updated Geological/Engineering Reports on their respective interests in the White Hills Mining Properties in Mohave County, Arizona. Pursuant to these Reports the further exploration/development work recommended therein is being implemented in particular on the G.A.R. Mine owned by Arizona and the Hulda Mine owned by Continental. Other exploration/development work is also proceeding on other Mines located on Arizona/Continental White Hills Properties which is comprised of a total of 108 Mineral Claims.

Arizona/Continental are also in the process of acquiring several other good potential silver/gold mining properties in the vicinity of their White Hills Properties. As a result of the prevailing economic conditions and lower metal prices these new properties are being acquired on very favourable terms.

Personnel in the Arizona/Continental office in San Angelo, Texas are evaluating participation in various gas/oil prospects. Upon projects being assembled exploration/development will be financed by drill fund monies and/or participation by other parties with Arizona/Continental acting as Operator and retaining a carried over interest therein.

ental acting as Operator and retaining a carried over interest therein.

CAPITALIZATION

Arizona Silver Corporation	Continental Silver Corp.
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Issued 3,107,934	Issued 2,545,119

Listed	Listed
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NASDAQ/ARZ NF	NASDAQ/CTL SF

(Contact: Charles S. Underhill, Director, Arizona Corporation & Continental Silver Corp., Suite 1140 Howe St., Vancouver, B.C. Canada V6C 2T6 Phone: 689-5588, or Michael A. Connor, Schaenen & Fellert Co. 16th Floor, 52 Vanderbilt Ave., New York, N.Y. Phone: (212) 490-1122.)

CHIEFTAIN DEVELOPMENT CO. LTD. A. CHIEFTAIN REPORTS RECORD FIRST HALF RESULTS

Revenue: \$40.7 million
Cash Flow: \$18.1 million
Net Income: \$10.5 million

EDMONTON, July 21, 1982—Chieftain Development Ltd. reports increases of 80% in net earnings and 3% cash flow for the six month period ended June 30, over the comparative period of 1981.

Gross revenues for the first half of 1982 \$40,737,000 compared to \$34,674,000 for the first months of 1981. Funds provided from operations amounted to \$18,120,000 (\$1.25 per share) compared to \$13,943,000 (\$1.09 per share) in the first half of 1981.

Net income for the period, including an extraordinary gain of \$3.3 million, was \$10,482,000 (67 cents per share) compared to \$5,812,000 (41 cents per share) the first half of 1981. The extraordinary gain relates to the sale of Chieftain's 20% interest in Inland Natural Co. Ltd. for \$12,512,000 on April 13. Before extraordinary gain, net earnings were \$7,131,000 (45 cents per share). There were no extraordinary items in the first half of 1981.

(Contact: Tom Campbell, Chieftain Development Ltd., 1201 Toronto Dominion Tower, Edmonton, Alberta, Canada T5J 2Z1. (403) 425-Telex: 037-3499.)

FIDELITY OF OKLAHOMA FIDELITY OF OKLAHOMA REPORTS INCREASED FIRST HALF EARNINGS

OKLAHOMA CITY—Fidelity of Oklahoma, Inc. (NAFDOK) reported record earnings and growth for the first half. The one-bank holding company owns and operates Fidelity Bank, N.A., the third largest bank in Oklahoma City and fifth largest in Oklahoma.

Net income for the six months ended June 30, was \$3,295,000 (\$1.35 per share), up 14% from \$2,891,000 (\$1.21 per share) a year ago. "This ninth consecutive year first half earnings have set records," Jack T. Conn, Chairman, and Wilfred A. C. President and Chief Executive Officer, said.

Second quarter net income of \$1,553,000 (\$.66 per share) was up 23% over \$1,265,000 (\$.53 per share) a year ago.

Assets of \$930 million increased 33.6% from \$696 million, deposits of \$650 million were up 33%, and of \$561 million rose 47.3% over a year ago.

"Fidelity shareholders were paid an 8% increase in their cash dividends for the second quarter and received a 100% stock dividend," Conn and Clarke said. "Since 1975, cash dividends have been increased 100%. Adjusted for the stock dividend, cash dividend is \$2.20 per share quarterly, or \$8.80 annualized."

CORPORATE REPORT

Updates

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1976, the compound annual growth rate in Fidelity's cash dividends has been 19.8% compared to an annual Consumer Price Index growth of 10.1%, outdistancing inflation by nearly 2 to 1."

(Contact: Wilfred A. Clarke, President and Chief Executive Officer of Fidelity of Oklahoma Inc., P.O. Box 24128, Oklahoma City, OK 73124. Phone: (405) 272-2000.)

HOSPITAL CORPORATION OF AMERICA 1982 SECOND QUARTER RESULTS

NASHVILLE, Tennessee, July 19, 1982—Hospital Corporation of America today announced increased revenues and earnings for the second quarter and the first half of its current fiscal year, with net income for the six months up 7% over the same period in 1981.

Chairman Donald S. MacNaughton and President Thomas Frist, Jr., M.D., reported strong performances in all areas of the Company's operations during the quarter.

"HCA's growth can be attributed primarily to continued expansion of the Company's hospital group through acquisitions, management agreements and construction," said MacNaughton. "HCA's sustained emphasis on productivity and cost containment is reflected in a 3.1 percentage point improvement in operating expenses as a percent of revenues, as compared to the same quarter a year ago." This is the indicator of the Company's efficiencies and economies of scale," he added.

Revenues for the first six months totaled \$1,750,492,000, up 68% from \$1,043,540,000 in the same period of 1981. Net income increased 57% to \$89,513,000, compared with \$57,010,000 last year. Earnings per share increased 34% to \$1.61, compared with \$1.20 in the first half of 1981.

For the second quarter, revenues totaled \$876,127,000, up 67% from \$525,050,000 in the same period of 1981. Net income increased 59% to \$41,321,000, compared with \$25,962,000 in the second quarter of 1981. Earnings per share increased 37% to \$.74, compared with \$.54 last year.

Patient days of care provided at HCA's U.S. owned general and psychiatric hospitals totaled 3,660,025 days, an increase of 44% over the first six months of 1981. The increase was primarily a result of the addition of 73 new hospitals with 10,000 beds since June 30, 1981. Occupancy rates at owned hospitals averaged 66.9% for the second quarter of 1982, compared to 69.0% in the same period last year. Excluding hospitals acquired and constructed in the last two years, occupancy rates continued to improve as compared to the prior year.

FINANCIAL HIGHLIGHTS

	Three Months Ended June 30		
	1982	1981	Increase
Operating Revenues	\$876,127,000	\$525,050,000	67%
Income Before Income Taxes	68,021,000	43,987,000	55%
Provision for Income Taxes	26,700,000	18,025,000	48%
Net Income	41,321,000	25,962,000	59%
Net Income per Common and Common Equivalent Share	\$.74	\$.54	37%

	Six Months Ended June 30		
	1982	1981	Increase
Operating Revenues	\$1,750,492,000	\$1,043,540,000	68%
Income Before Income Taxes	146,413,000	95,510,000	53%
Provision for Income Taxes	56,900,000	38,500,000	48%
Net Income	89,513,000	57,010,000	57%
Average Number of Common & Common Equivalent Shares	59,751,000	47,434,000	26%
Net Income per Common and Common Equivalent Share	\$1.61	\$1.20	34%

(Contact: Victor L. Campbell, Vice President Corporate Communications, Hospital Corporation of America, One Park Plaza, Nashville, Tennessee 37203. Phone: (615) 27-9551.)

NIKE, INC.

BEAVERTON, OR., July 20, 1982—NIKE, Inc. (symbol: NIKE) today released revenues and earnings for the three months and fiscal year ended May 31, 1982. Net income for the three months was \$12,311,000, or \$.69 per share, compared to \$7,335,000, or \$.41 per share, in the prior year. Net income for the fiscal year was \$49,036,000, or \$2.74 per share, compared to \$25,955,000, or \$1.52 per share, in the prior year.

Revenues for the three months ended May 31, 1982 were \$205,058,000 compared to \$134,784,000 in the prior year. Revenues for the fiscal year ended May 31, 1982 were \$693,582,000 compared to \$457,742,000 in the prior year.

For the fiscal year ended May 31, 1982, revenues increased 52% over the prior year and net income increased 89%. The increase in net income was principally the result of higher sales volume combined with improved gross margins.

Mr. Knight, NIKE president, indicated that domestic revenues totaled \$651 million, or 94% of total revenues, with foreign sales, principally to Canada, Europe, and Japan, accounting for the balance. Sales of court shoes for basketball, tennis, and other racquet sports accounted for 31% of domestic revenues, sales of running shoes accounted for 36% of domestic revenues and sales of children's shoes accounted for 17% of domestic revenues. Apparel revenues were \$70.3 million compared to \$33.1 million a year ago. The balance of domestic revenues were from sales of cleated shoes and leisure shoes.

(In thousands, except for per share data)

	3 Mos. Ended		Fiscal Year Ended	
	May 31	1981	May 31	1981
Revenues	\$205,058	\$134,784	\$693,582	\$457,742
Net income	\$12,311	\$7,335	\$49,036	\$25,955
Net income per common share	\$.69	\$.41	\$2.74	\$1.52
Average shares outstanding	17,862	17,842	17,854	17,016

(Contact: Gary Kurtz, Treasurer, NIKE Inc., 3900 S.W. Murray Blvd., Beaverton, OR 97005. Phone: (503) 641-6453.)

MARCH RESOURCES LTD

V July 21, 1982—March Resources Ltd. (MHL-V) of Vancouver, British Columbia and Commodore Resources Corporation of Salt Lake City, Utah and Denver, Colorado reported today 'encouraging shows' have been encountered in the Federal Outlaw No. 1 exploratory well being drilled in White Pine County, Nevada. As a result, the companies said they plan to commence drilling a second 12,500 ft well immediately following drilling completion of the exploration well.

Commodore technical staff have reported they are 'pleasantly surprised and encouraged' by what has been already encountered in the Federal Outlaw No. 1.

The well has reached 5,400 feet and has encountered a minimum of three zones to date that appear to warrant subsequent testing. The companies said this preliminary analysis was predicated on presence of indicated reservoir formations and measurable quantities of methane, ethane and propane gases as well as additional undisclosed factors. The potential zones were encountered in the Mississippi Chainman and Joanna Limestone formations.

Immediate plans are to run a full set of logs and set 9 1/2 inch intermediate casing before drilling ahead to the well's 12,500 foot target depth.

Logs to be run include a fracture identification log, borehole compensated sonic log, high resolution dip meter survey, spherically focussed latero log, compensated neu-

tron-formation density log, cyberlook log and a micro resistivity log.

In terms of immediately planning the location and start of a second well on the 63,000 acre Deardon Prospect, the companies said significant economies could be effected by moving the rig currently being utilized to the new location.

The second site is expected to be from three to five miles north of the first well on a 12,000 acre parcel farmed out by Union Oil of California.

March has a 35 percent working interest in the well and the prospect acreage. Four additional Vancouver-based companies are participating as follows: Admiral Mines Limited, 5 percent, Pryme Energy Resources Ltd., 5 percent, Macmillan Energy Corp., 2.5 percent and Damascus Resources Ltd., 2.5 percent. In addition, March has agreed to option a five percent working interest to Rabbit Oil and Gas Ltd., also of Vancouver.

For further information, contact Frank Matthews, Anthony L. Agostino, Douglas Collingwood or Robert Baumgartner at March Resources Ltd. (Suite 202), 595 Howe St., Vancouver, B.C., Canada V6C 2T5, (604) 687-8867. Commodore Resources Corporation, contact Ray Diaz at (303) 595-0950 or Robert Robb at (801) 521-6400.)

PMS CORPORATION

O COLUMBIA, S.C., July 21—Policy Management Systems (PMS) Corporation (OTC, PMSC) today announced that its second quarter, 1982, results established new records for both revenues and earnings.

Operating revenues reached \$10.9 million, and net income was \$1,650,000 for the second quarter. For the first six months of the year, revenue increased 36% over the corresponding 1981 six-month period, and earnings per share increased 40%. Research and development expenses were \$4.9 million for the six months, representing 24% of operating revenue. Pre-tax margins were slightly above expectations at 25% for the first six months of 1982. PMSC's financial position continues to be strong, with over \$19 million in cash and short-term investments. Capital expenditures are budgeted at approximately \$7.5 million for the remainder of 1982, principally for its new data center facility and equipment for two new systems, which include both hardware and software.

PMS Corporation, headquartered in Columbia, S.C., is the largest provider of standardized software products and service to the property and casualty insurance industry.

For more information or a copy of the annual report: (Contact: Robert Gresham, Vice President & Treasurer, PMS Corporation, P.O. Box 10, Columbia, SC 29202. Phone: (803) 748-2405.)

PIONEER HI-BRED INTERNATIONAL, INC.

O DES MOINES, IA, July 12—Delayed seed purchases by farmers and higher unit sales pushed third quarter earnings of Pioneer Hi-Bred International, Inc. to \$1.87 per share compared to \$1.08 a year earlier. Thomas N. Urban, President and Chief Executive Officer, noted that the severe winter weather this year caused many farmers who normally take delivery of seed in the second quarter to make their purchases in the third period. The Company earned \$59,789,000 on sales of \$350,019,000 in the quarter ended May 31.

The third quarter results contrasted with the second quarter when earnings declined \$.20 per share from the previous year, adjusted for the two-for-one stock split of March 19.

Corporate Report Updates

Continued on following page

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Corporate Report Updates

Continued from preceding page

For the first nine months of fiscal 1982, after-tax earnings reached \$81,138,000, or \$2.54 per share, on revenues of \$537,949,000. For the same period a year earlier, Pioneer earned \$1.96 per share, adjusted for the stock split.

Urban attributed the improved earnings this year primarily to increased unit sales of the Company's seed corn, soybean seed, and wheat seed. Although seed corn unit sales for the nine months were up over 10 per cent, the Pioneer president expects final sales to rise only about 8 per cent. "Last year, we had unusually high fourth quarter sales which will not be repeated this year," he explained.

In the final quarter of fiscal 1981, Pioneer recorded a small profit due to the late seed corn sales. Urban expects 1982's fourth quarter operations to result in a normal loss.

PIONEER HI-BRED INTERNATIONAL, INC.

(Unaudited, In Thousands)

Except For Per Share Amounts)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	1982	1981	1982	1981
Net Revenues	\$350,019	\$239,505	\$537,949	\$448,188
Income Before Taxes	\$117,736	\$69,223	\$159,929	\$124,487
Provision For Taxes	\$57,947	\$34,714	\$78,791	\$62,097
Net Income	\$59,789	\$34,509	\$81,138	\$62,390
Income Per Share*	\$1.87	\$1.08	\$2.54	\$1.96
Average Shares				
Outstanding*	31,922	31,914	31,920	31,910

*Adjusted for a two-for-one stock split up effected in the form of a 100% stock dividend on March 19, 1982

(Contact: Jim Ansoorge, Pioneer Hi-Bred International, Inc., 1206 Mulberry St., Des Moines, IA 50308. Phone: (515) 245-3578.)

TELEFLEX INCORPORATED

TELEFLEX REPORTS SECOND QUARTER EARNINGS

LIMERICK, PA., July 14, 1982—Teleflex Incorporated today reported that revenues for the second quarter ended June 27, 1982 increased by 8% to \$29,238,000 compared to \$27,131,000 for the same three months last year. Net income amounted to \$2,360,000 or \$0.50 per share for the quarter versus \$2,022,000 or \$0.43 per share for the same period in 1981, an increase of 16%.

Revenues for the six months ended June 27, 1982 were \$57,043,000 compared to \$52,038,000 in 1981. Net income amounted to \$4,280,000 or \$0.91 per share compared to \$3,603,000 or \$0.77 per share in the prior year, an increase of 18%.

COMPARATIVE SUMMARY OF REVENUES AND EARNINGS

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 27,	June 28,	June 27,	June 28,
	1982	1981	1982	1981
Revenues	\$29,238,000	\$27,131,000	\$57,043,000	\$52,038,000
Income before taxes	\$4,135,000	\$3,744,000	\$7,505,000	\$6,671,000
Net income	\$2,360,000	\$2,022,000	\$4,280,000	\$3,603,000
Earnings per share	\$0.50	\$0.43(A)	\$0.91	\$0.77(A)

(A) Adjusted to reflect the three-for-two stock split distributed September 15, 1981

Teleflex Incorporated is a company which solves engi-

neering problems by the development and application of new specialized technologies.

(Contact: Seaborn C. Langley, Jr., Director of Corporate Communications or John H. Remer; Senior Vice President, Teleflex Incorporated, 155 S. Limerick Rd., Limerick, Pa. 19468, phone (215) 948-5100.)

UNITED TELECOMMUNICATIONS, INC.

KANSAS CITY, MO., July 8—United Telecommunications, Inc. earnings per share from continuing operations for the first half of 1982 were \$1.20, down 6 percent from \$1.28 in 1981. Chairman Paul H. Henson announced today.

Earnings per share for the first six months were \$1.20, compared to \$2.03 in the first half of 1981 when the company recorded a gain of 75 cents per share on the sale of Calma Company.

Henson said the effects of a weak business climate limited growth in each of the company's four operating groups. United Telecom recorded an 18 percent gain in total revenues and sales during 1981, but 1982 first half total revenues and sales of \$1.2 billion were up only 9 percent over the first six months of 1981.

"We look for a strong earnings performance in the second half of 1982 with improvement in all but our new intercity communications group," Henson said.

(Thousands of Dollars)

	6 Mos. Ended June 30	
	1982	1981*
Total revenues and sales	\$1,193,628	\$1,096,972
Income from continuing operations	\$96,296	\$96,730
Discontinued operations		55,929
Net income	\$96,296	\$152,659
Preferred stock dividends	2,491	2,801
Earnings applicable to common stock	\$93,805	\$149,858
Earnings per common share from continuing operations.		
Assuming no dilution	\$1.20	\$1.28
Assuming full dilution	\$1.18	\$1.23
Earnings per share:		
Assuming no dilution	\$1.20	\$2.03
Assuming full dilution	\$1.18	\$1.94
Average number of common shares	77,899,000	73,729,000

*Restated to reflect company merged on a pooling of interests basis

(Contact: Don Forsythe, United Telecommunications, Inc., P.O. Box 11315, Plaza Station, Kansas City, MO 64112. Phone: (913) 676-3343.)

UNITED ENERGY RESOURCES, INC.

HOUSTON, TX., July 26, 1982—United Energy Resources, Inc., today reported unaudited consolidated net income for the second quarter of 1982 of \$54.2 million, or \$1.95 per share, on revenues of \$1.4 billion as compared with net income of \$53.9 million, or \$1.94 per share, on revenues of \$1.3 billion for the second quarter of 1981.

United Energy's consolidated net income for the six months ended June 30, 1982 was \$118.4 million, or \$4.26 per share, on operating revenues of \$3 billion, compared with net income of \$109.3 million, or \$3.93 per share, on operating revenues of \$2.5 billion for the six months ended June 30, 1981.

United Energy's consolidated net income for the 12 months ended June 30, 1982 was \$224.8 million, or \$8.08 per share, on operating revenues of \$5.9 billion, compared with net income of \$196 million, or \$7.28 per share, on operating revenues of \$4.7 billion for the 12 months ended June 30, 1981.

United Energy Resources is the parent company of United Gas Pipe Line Company (interstate gas transmission),

United Texas Transmission Company (intrastate gas transmission), Cotton Petroleum Corporation (oil and gas exploration, development and production), United Energy Services Company (contract drilling and well servicing) and P. United, Inc. (bulk liquids terminaling and marketing).

UNITED ENERGY RESOURCES, INC.

(CONSOLIDATED)

(Unaudited)

	Three Months Ended June 30	
	1982	1981
Operating Revenues	\$1,377,883,000	\$1,274,870,000
Net Income	\$54,249,000	\$53,900,000
Earnings Per Share	\$1.95	\$1.94
Weighted Average Shares Outstanding	27,820,000	27,810,000
	Six Months Ended June 30	
	1982	1981
Operating Revenues	\$2,955,529,000	\$2,536,050,000
Net Income	\$118,446,000	\$109,300,000
Earnings Per Share	\$4.26	\$3.93
Weighted Average Shares Outstanding	27,820,000	27,810,000
	Twelve Months Ended June 30	
	1982	1981
Operating Revenues	\$5,850,431,000	\$4,707,200,000
Net Income	\$224,835,000	\$196,000,000
Earnings Per Share	\$8.08	\$7.28
Weighted Average Shares Outstanding	27,820,000	26,910,000

(Contact: Marvin L. Brown, Jr., United Energy Resources, Inc., P.O. Box 1478, Houston, TX 77001. Phone: (713) 5373.)

TEXSCAN CORPORATION

PHOENIX, AZ., June 29—Texscan Corporation (ATX) today announced record results for the fiscal year ended April 30, 1982.

Net sales for the year increased 46 percent to \$40,496,723 from \$27,654,154 in the prior year. Net income increased 104 percent to \$4,011,506 from \$1,962,000. Income per share increased 51 percent to \$0.68 per share from \$0.45 per share.

Net sales for the fourth quarter increased 38 percent to \$11,697,782 from \$8,488,744 in the comparable third month period in 1981. Net income increased 54 percent to \$1,223,661 from \$793,125. Income per share increased 51 percent to \$0.20 per share from \$0.15 per share.

	3 Mos. ended April 30		Fiscal Year Ended April 30	
	1982	1981	1982	1981
Net sales	\$11,697,782	\$8,488,744	\$40,496,723	\$27,654,154
Net income	\$1,223,661	\$793,125	\$4,011,506	\$1,962,000
Income per share	\$0.20	\$0.15	\$0.68	\$0.45
Number of shares used to compute income per share	6,069,926	5,122,554	5,934,583	4,336,000

Note: 1981 income amounts have been adjusted to reflect the change in accounting, relating to compensated absences. In addition, 1981 income per share amounts have been adjusted to reflect the five-for-one stock split effective May 14, 1982.

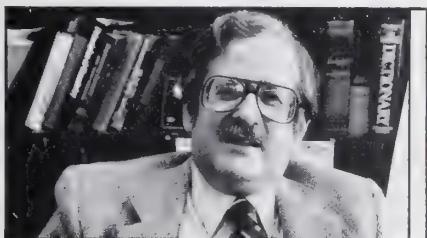
Texscan Corporation is the largest independent supplier of proprietary CATV products, including test equipment, character generators, distribution equipment and converters. (Contact: Steven R. McGill, Texscan Corporation, 300 North 29th Avenue, P.O. Box 27548, Phoenix, AZ 85001. Phone: (602) 252-5021.)

For rate information on Corporate Report Updates call: Sarah Madison (212) 620-2371

Three types of wheat are traded in the U.S., thus setting up the possibility of some interesting intermarket spreads.

WHEAT MARKETS: THE DIFFERENCES

By Stanley W. Angrist



An outright long or short position in a commodity has profit potential, and, as all speculators know, considerable risk. One of the reasons the trading of spreads is popular is that in almost every case the spreads offer lower risk and an attractive profit opportunity. Historically, some of the most popular spread trades have been intermarket wheat spreads. These trades may be done because three types of wheat are traded in three markets, Chicago, Kansas City and Minneapolis.

The three types of wheat are soft red winter (Chicago), hard red winter (Kansas City) and hard red spring (Minneapolis). Soft red grows primarily in the region surrounding Illinois. It is used in the making of crackers and pastries. Annual production over the last five years has averaged 388 million bushels, with a high of 658 million bushels in 1981 and a low of 189 million in 1978.

Hard red winter wheat is the world's breadmaker, with a higher protein content than soft red, but less than hard red spring wheat. It is grown in an area that centers on Kansas and extends into Texas and Oklahoma. Production during the last five years has averaged about 1 billion bushels, with a high of 1.2 billion bushels in 1980 and a

low of 830 million bushels in 1978. Like soft red winter wheat, it is planted in the fall, starts to grow, then goes dormant with the onset of winter and is harvested beginning in late May.

Hard red spring wheat is very high in protein and for that reason is frequently blended with lower protein wheats. The growing region centers on North Dakota. Annual production has averaged around 384 million bushels, with a high of 467 million bushels in 1981 and a low of 311 million in 1980. This type of

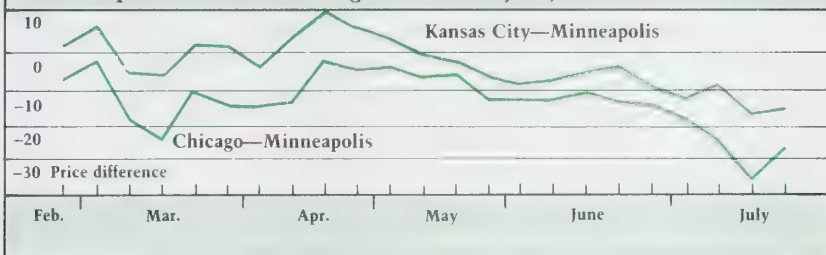
generally buy the cheapest wheat available. Obviously, the demand for different classes of wheat will have an effect on the intermarket spread relationships.

The second consideration is the supply of the three types of wheat. Because of the different regions in which wheat is raised and its different end uses, the supplies of the three kinds of wheat can change independently. For example, in 1978 soft red production fell about 40%, while spring wheat output dropped less than 5%. This caused the Minneapolis contract to trade at a substantial discount to Chicago for almost the entire year.

Examination of the three wheat markets leads me to suggest two trades based on historical price relationships. Since 1977 the December Minneapolis contract has not failed to go off the board at a discount to the Kansas City contract. Thus I would try to buy KC/sell Minneapolis (basis December contracts), with at least a 13-cent premium to Minneapolis. Relative to

Place makes a difference

The chart shows the premium or discount in cents per bushel that the Minneapolis wheat contract has had over the Chicago or Kansas City contract since February. In recent years, by the time December comes, Chicago and Kansas City have generally moved to a premium over Minneapolis. It looks like a good bet this year, too.



wheat is planted in the spring and is harvested beginning about mid-July, continuing into September.

There are generally two types of buyers in the wheat market at any one time—class buyers and price buyers. Some purchasers need a particular class of wheat, regardless of price. The other type of buyer seeks the lowest priced wheat, regardless of class. The export market, for example, contains both types of buyers. The Soviets like to purchase hard red winter wheat primarily because they buy the wheat for breadmaking. India, Pakistan and, to a lesser extent, China will

my entry point, I would risk no more than 10 cents and look for at least a 25-cent profit.

The second spread is similar, except that it involves buying Chicago while selling Minneapolis, with at least a 25-cent premium to Minneapolis. For four of the last five years Minneapolis has gone off the board at a discount to Chicago. I would use December contracts while looking for a 35-cent profit and again risk no more than 10 cents, relative to the entry level.

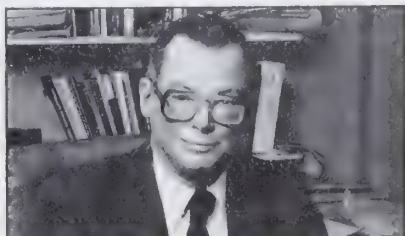
The margin on this spread is \$750, while the round-turn commission should be around \$100. ■

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

A money market fund isn't necessarily riskless just because it's limited to investing in riskless U.S. government securities.

ALL'S NOT LIQUID THAT SEEMS LIQUID

By Ashby Bladen



What I have to say may shake up some of you. If you have invested in money market funds that in turn buy only short-term U.S. government securities, you probably consider that investment to be perfectly liquid and virtually risk-free. Well, there may be a significant risk in some of them.

First, let me drop back and restate my basic position. Our fundamental problem is overgovernment, and we will not get interest rates down to a viable level until the government's prospective deficits are reduced by cutting expenditures, not by raising taxes. The plain fact is that a rapidly increasing number of people have had it with paying taxes, and their willingness to calculate their income tax liability honestly is declining dangerously. During the last 20 years our politicians have tried to limit the blame for excessive taxes by not raising them enough to cover the government's expenditures. But that only works until the resulting inflation destroys the people's willingness to make long-term loans and deposits. We have already severely damaged the ability to borrow large amounts at long term and at reasonable interest rates on the

capital markets that once financed America's development into the greatest industrial nation on earth. It would require many years of obviously sound and responsible policies to repair the damage.

That's what makes money market funds so popular. Until it becomes crystal clear that the real value of financial claims is not going to be eroded further by inflation, prudent people will continue to keep their options open by making only the most liquid investments that they can find. That means that businesses must finance both their seasonal and their permanent needs at short term. By now the financing of long-term assets with short-term liabilities has gone so far that I believe a major, and probably lengthy, financial crisis is brewing. So I continue to recommend that both financial institutions and individuals stay as liquid as possible—at least for the time being.

Money market funds seem to fill the bill. Ideally, a money market fund should be as free of risk and as undemanding of its shareholders' time and attention as possible. Alas, it is my growing belief that the apparently safest of the funds are not nearly as trouble-free as their shareholders assume them to be. Here's why:

In 1970, after the Penn Central Railroad failed and left its commercial paper holders holding the bag, the commercial paper market dried up for all but the very best quality borrowers. Confidence eventually returned, but the recent spate of large corporate bankruptcies has reminded us that a debt instrument is not necessarily secure just because it is supposed to be repaid in the near future. More recently confidence took a particularly hard rap from the failure of the Penn Square

Bank, which inflicted the first losses on uninsured depositors since the Depression. And the erosion of confidence has led short-term investors to turn increasingly to the money market funds, whose prospectuses limit them to investing in U.S. government paper. Since the government of the sovereign state has the power to tax away all of the income and assets of all the rest of us, its ability to pay its debts is not in question so long as it can retain control of the state. So what can possibly go wrong with a fund that invests only in very short-term U.S. government obligations?

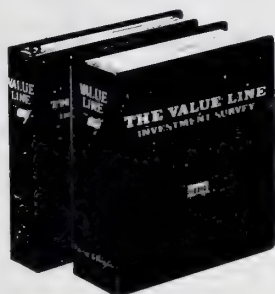
I am afraid that the answer is—plenty. According to the latest statements that I have seen, over 40% of the assets of the government-obligation money market funds, nearly \$15 billion worth, consist of securities bought under repurchase agreements, according to which the seller is committed to buy the securities back at some date in the near future, which normally is considerably nearer than the maturity date of the underlying security. The fund calculates the average maturity of its portfolio based on those repurchase dates, not on the maturity date of the security itself. That means that the money market fund's immunity from market risks caused by changes in interest rates depends on *the seller's ability to live up to his repurchase commitment*, not on the creditworthiness of the issuer of the security. And, as we have seen in the Drysdale and Comark affairs, in today's volatile markets, government securities dealers can easily get into trouble.

Moreover, the treatment that repurchase agreements would get in a bankruptcy court is not at all clear. Not only could the holder of a repurchase agreement suffer a loss, but it is possible that his money might be tied up for years at little or no interest, which would be disastrous for a money market fund. Of course, none of these things would happen to a fund that trades only with sound and honest dealers, but I believe that making a judgment about that is too much to ask of individual shareholders. I supervise a couple of money market funds at Phoenix Mutual Life, and soon I will tell you how we intend to cope with the problem. ■

Ashby Bladen is senior vice president for investments of the Phoenix Mutual Life Insurance Co. and author of How to Cope with the Developing Financial Crisis.

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The Contrarian

*There will be no official announcement
when the market finally turns.*

A BERNARD BARUCH KIND OF MARKET

By David Dreman



When asked how he made his fortune, Bernard Baruch replied: "By never buying at the bottom or selling at the top." That's a good sermon for 1982. The market may have yet to plumb the final depths of this current bear market, but that many stocks are enticingly cheap is beyond question. They are selling at prices so low that buying them before the bottom would not be much of a mistake in the long run.

All too many money managers and investors are busy bottom-fishing. They are waiting for clear signals that the bear market has run its course. There are no such clear signals. Never are. Forget the timers who publish market letters telling you how to catch stock swings. A table in my Jan. 4 column showed that between 1971 and 1981 there was an almost perfect correlation between the investment advice they gave you and the future course of the market—unfortunately, almost perfectly wrong. The advisers were always most bullish near market peaks and recommended the heaviest selling near bottoms, just prior to sharp rallies.

Extensive academic and brokerage studies substantiate these findings. For example, a recent article in

an investment publication reported that a pension fund survey of 600 self-professed market timers showed that less than 1% "demonstrated a good track record during the past decade." Darts, anyone?

Granted it's a tremendous ego trip to catch a market bottom; the chances for making money at it, however, are really not much better than those for getting profits playing three-card monte. Bull markets, as past experience indicates, seem to come out of nowhere, and at times when people are heavily cash-laden, waiting for the next hundred-point downswing. Remember, too, that in all the major bull markets of the century, at least one-third of the total upside was made in a matter of months—before the crowd believed the tide had really turned and before the experts' "early-warning systems" began to jangle.

For the institutional money manager, the situation is even more complicated. He must not only see the turn, but call it well in advance, since it takes a giant financial institution up to six months to position fully the billions under its control. The combination of attempting to fine-tune and the logistics of requiring many months to change course has cost institutions dearly in the past, as their poor performance records indicate. The problem is not unlike being suddenly ordered to turn an aircraft carrier around in a canal. Still, institutions are among the greatest believers in "bottom-catching," as a glance at comments of experts on the market page of any major daily will confirm. The lemming instinct.

A savvy investor would be wise to forget market timing and concentrate instead on whether stocks are cheap—and they are. Today, the Dow, adjusted for inflation, is under

David Dreman is managing director of Dreman, Gray & King, Investment Counsel, New York, and author of Contrarian Investment Strategy.

MONEY & INVESTMENTS

80, not far from the lows of the Great Depression. Book value, according to John Templeton, again adjusted for inflation, is at a greater discount to market price than at any point in the century. There is exceptional value out there.

Sure, stocks can go down 10% from here, but by holding out, there is a risk of missing a major market move of possibly 100% or more over the next few years. The odds seem heavily stacked against the bottom-fishers. If you believe stocks are cheap, but don't want to commit funds all at once, invest a portion of your equity monies now and increase your holdings if the market goes lower.

The same logic prevails for long-term bonds. Yields in this market are higher in real terms (after inflation and taxes) than at any point in well over 100 years. The risk of not locking up today's high returns is far greater than the possibility of yields rising much more.

To me, attempting to squeeze the last eighth or quarter out of a very cheap market is penny-wise and pound-foolish. So what should you buy? My two choices are high-quality, long-term bonds (municipals, if your tax bracket is over 25%) and good, low P/E stocks with above-average yields.

Three in the latter category that are interesting today:

Canadian Pacific Enterprises (11), the resource arm of Canadian Pacific, has major interests in oil, real estate, pulp and paper, steel and base metals. Down sharply with the severe Canadian market break, the stock trades at 6 times depressed earnings and yields 6.9%.

Travelers (18), a major multiline insurer, trades at a discount of 45% from its book value. Both earnings and dividends should show cyclical improvement next year. The stock has a price/earnings ratio of 5 and yields 9%.

Wells Fargo (21), priced at under 4 times earnings, the nation's 12th-largest bank, is one of the most unloved stocks in an unloved industry. Earnings will be higher this year, and the improvement should widen in 1983, as interest rates decline. The stock yields 8.9%.

In short this is a Bernard Baruch kind of market: scary as hell but packed with solid value. ■

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The desirable ones rarely are for sale. Yet, the owner "might entertain an offer."

HOW TO GO ABOUT BUYING A BUSINESS

By Thomas P. Murphy



"Why did you go into business for yourself?"

"Because I was out of work and broke."

It happens that way sometimes but if you really want to go into business for yourself, don't wait to get fired. Get moving. Now.

The search starts with yourself. Since most people initially decide they want a company of their own for negative reasons—because they are tired of commuting, because they are fed up with big organizations—the initial motivation does not help much in bracketing what kind of company they want to buy or where it ought to be located.

Roger Cromwell, who counsels people looking for companies, first urges his clients to write down everything they want to do with the rest of their lives. They want to sail around the world. Okay. Or live where there is good fishing. That's all right, too. Then, says Cromwell, put that piece of paper aside and write on another the things you do well. "Usually, people will put down five or ten things they believe they do well," he says. The next step, with Cromwell's approach, is matching the lists. With a clearer notion of what you are looking for—manufacturing, say; low technology and in Southern California—the

search can begin. Where do you start? How do you start?

To get some experience, some feel, you can start with local newspapers. The "Business Opportunity" section, a staple in every metropolitan daily, has its smorgasbord of commonplace businesses for sale: restaurants, dry cleaners, filling stations, marinas, etc.

Follow up on some of those ads, and you will likely meet the heartiest of optimists, the business broker. Don't expect him to be thrilled by your quest. The bane of his existence is the perennial shopper, and your first challenge is persuading the broker that you are serious, that you do have some money, that you really do intend to buy a company and that you know what you are looking for. Will he find it for you? Probably not. But you will learn a lot and you might even get lucky.

Unfortunately, the experience with business brokers leads a lot of people to the correct conclusion that the better companies are rarely advertised or listed with them. Why not? Because an informal network takes over the selling job long before that happens.

What is the network? Accountants are part of it; not the Big 8, but the smaller firms that normally serve smaller companies. Lawyers are another source, particularly those who do merger and acquisition work. So, sometimes, are commercial real estate brokers and bankers. Bear in mind, though, that there may be a contradiction in what you are asking these people to do. It severely taxes their professional objectivity if, in leading you to a business for sale, they may lose a valued account or client.

Offering a finder's fee could help. There are no set rules for this. As

little as 2% of the purchase price might do it. Business brokers try to get 10%, and for larger deals the "Lehman formula," 5% of the first million dollars, 4% of the second, etc. is a norm. Generally, fees are paid by the seller. At least technically they are.

Another part of the network, and better if you can tap it, is the kind of individual who simply knows everybody everywhere in an industry. A manufacturer's rep, for example. A friend of mine has bought four companies through that kind of contact. Not one of them was officially for sale. In fact, for the most part, leads you get from the informal network are never really for sale. They are in the category of "the owner might consider... if the right kind of buyer, etc."

Delicacy is the tone, and it has to be taken seriously. Rumor that a company is for sale can devastate employee morale and unnerve customers and lenders. Further, a business that stays on the market for a long time becomes shopworn. Justified or not, the grapevine decides that there must be something terribly wrong or it would have been sold by this time.

Ingenuity helps, too. An acquaintance of mine, who finally got tired of looking at unpromising businesses that he thought were overpriced, turned to some friends in large, international advertising agencies. He asked them to query their European offices for clients selling consumer products in Europe that were not yet marketed in North America. That idea turned up some fascinating possibilities, including the discovery that the European companies were eager to talk to someone who might get them U.S. distribution.

Where can you get help? You may want to consider the Cromwell Group's publication, *Search*. It is published six times a year, and typically lists 200 or more companies for sale. The \$150 annual fee also gives you the right to advertise for what you want. Cromwell can take that a step further with a counseling service priced at \$2,000, which pretty much walks the would-be buyer through the whole process of purchasing a company. The address is: *Search*, 1960 Bronson Road, Fairfield, Conn. 06430. ■

Thomas P. Murphy is a venture capital firm. Partnership Dankist, Stamford, Conn.

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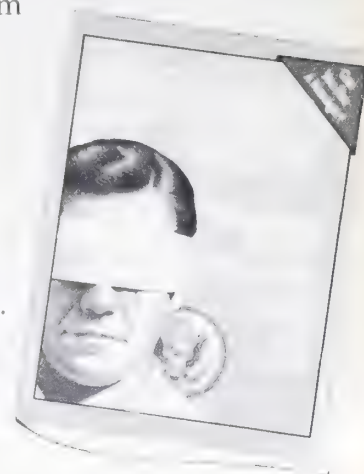
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Index of companies covered in news stories and by the columnists in this issue.

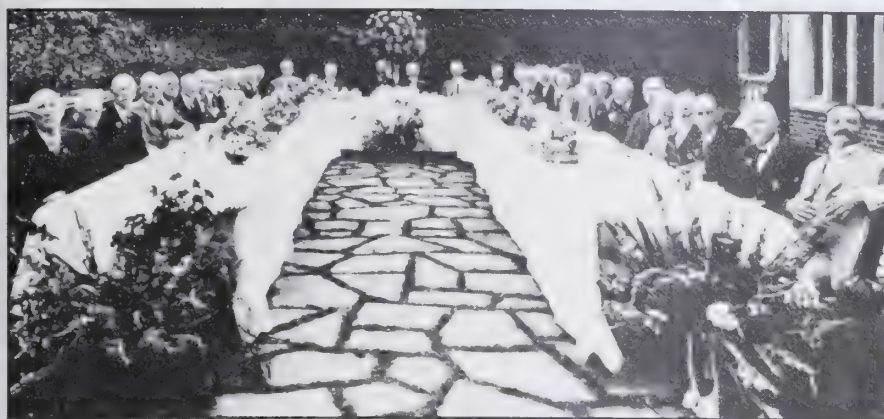
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Flashbacks

"The more things change. . . ." Items from past issues of FORBES



When Marshall Field & Co. President John Shedd reached his 50th anniversary with the store in 1922, he held this lunch for 33 employees also past the 50-year mark

Sixty years ago in FORBES

(From the issue of September 2, 1922)

"A wage increase of 20% for day labor has been announced by the U.S. Steel Corp. The advance from \$3 to \$3.60 for a ten-hour day affects 156,000 workers, and became effective Sept. 1. The increase makes common labor wages 80% above the 1915 scale."

"In five years Oregon has spent \$57 million in road-building. How's that for a population of only 800,000? No other state in the Union probably comes anywhere near such a per capita expenditure for good roads. Other Pacific states are also energetically constructing the very finest paved highways. Oregon's roads have cost \$30,000 a mile, exclusive of bridges. The result is that you can drive hundreds of miles north and south on roads the equal of any that New York, Chicago or any other large city can boast."

Fifty years ago

(September 1, 1932)

"The farmers' strike, which began in Iowa toward the close of the past month, does not appear to have assumed major proportions as yet, but it is perhaps a straw in the wind to show that the farmers are beginning finally to cooperate and to borrow some of the tricks of industrial labor which they have coveted for so long. There is no assurance as yet that the Iowa strike of agricultural producers, by forcibly withholding their goods from the market, will spread from its localized area; but the strike has had enough publicity throughout the country to start farmers in other sec-

tions thinking along the same lines. . . . The bonus march on Washington started with a very small movement, but national publicity turned it into a major problem."

"What is going to happen to the five-day week? There has been a lot of talk about it lately, and a few companies have announced that from now on they will operate permanently on a five-day-a-week schedule. Still others are studying, for themselves, the possibilities. On the whole, however, very few have actually adopted a definite policy, chiefly (no doubt) because all too many are still working four or even three days.

"It is seriously to be doubted that many new jobs would be immediately created if the five-day week were to be widely adopted today. . . . On the other hand, if five days is made the limit of a week's work in as many occupations as possible, new jobs will certainly be created much more rapidly as business activity increases. . . ."

"Surely this is revolutionary. For each electrically driven pressing machine used in New York's cloak and suit industry, it has been decreed, by arbitration, that the employer must pay \$8 a week into a pressers' unemployment fund, the money to be administered by the union. Also, because it is claimed that machines almost double production, pressers employed on them have had their pay increased \$12 a week.

"Will this principle of levying, for the benefit of labor, a continuous assessment on improved machinery spread? Various labor unions have demanded that the savings effected by labor-saving machinery should be di-

Edited by Dero A. Saunders

vided. In many cases, workers called upon to run more complicated machinery have received more wages. But this is the first case recorded where a direct toll has been levied by labor on labor-saving machinery."

As the last two items suggest, the specter that haunted America in 1932—and has haunted it ever since—was joblessness, made more fearful because no one knew just how many jobless there were: The first serious effort to count them came, at President Hoover's order, in the 1930 census reported the next spring. The figure was put at 3.2 million, but that omitted (for example) young people who had never worked, or farm people working without pay on family farms. No further official count was made in the 1930s, though the number had more than trebled by mid-1932 (a year the Southern Pacific reported it had chased 700,000 vagrants off its freight trains).

Curing the Depression became everyone's business. In *Since Yesterday*, a 1930s' sequel to his superb 1920s' cultural history *Only Yesterday*, Frederick Lewis Allen wrote that editors were swamped with "manuscripts proposing huge bond issues for public works, recommending inflation, recommending all sorts of other expedients, rational or ridiculous: 'hot money' which would decline in value if unspent; other complex improvements in the banking and credit system; schemes for the general reduction of debts; work-sharing schemes for shorter hours of labor to soak up unemployment; proposals for the seizure and operation of industries by the government." Clearly, Americans were revising their views on the proper relations of government and business.

Twenty-five years ago

(September 1, 1957)

"Bad news is hardly a novelty for meat packers. Giant Armour & Co. has paid no cash dividends since 1948. Even industry leader Swift & Co. had to dip into surplus last year to pay its faithfully maintained dividend. Though 1956 brought record prosperity to most of U.S. industry, for meat packers it was one of the worst years in recent memory."

"Cash dividends on Big Board common stocks reached a record high for the 15th consecutive first half, running 6.3% ahead of 1956. The six-month figure: \$4.2 billion. . . ."

If misery loves company, then
triumph demands an audience.
BRIAN MOORE

He preferred having been
unhappy for a worthwhile
reason to being happy
for a poor one.
FRANÇOISE SAGAN

I sometimes try to be miserable
that I may do more work.
WILLIAM BLAKE

The only sense that is
common in the long run,
is the sense of change . . .
and we all instinctively
avoid it.
E.B. WHITE

It is the nature of a man
as he grows older . . . to protest
against change, particularly
change for the better.
JOHN STEINBECK

Life is not a spectacle or
a feast; it is a predicament.
GEORGE SANTAYANA

There is no passion of the
human heart that promises
so much and pays so little
as revenge.
HENRY WHEELER SHAW

A hurtful act is the transference
to others of the degradation
which we bear in ourselves.
SIMONE WEIL

By taking revenge, a man is
but even with his enemy;
but in passing over it,
he is superior.
FRANCIS BACON

Gnawing on bones of contention
provides little nourishment.
WILLIAM SHAKESPEARE

Thoughts on the Business of Life

*There are two brands of
discontent: the brand that
merely fosters greed and
snarling and back-biting,
and the brand that inspires
greater and greater effort
to reach the desired goal.
Which is your brand?*
B.C. FORBES

Worry is like a rocking
chair . . . it will keep you busy,
but won't get you anywhere.
JOE BARNETT

Kites rise against, not
with, the wind. No man
ever worked his passage
anywhere in a dead calm.
ROBERT HERRICK

There is trouble and sorrow
enough in the world, without
making it on purpose.
WILLIAM DEAN HOWELLS

Whoever is easily susceptible
to the troubles and cares
of life is equally susceptible
to the joys life has to offer.
HANS MARGOLIUS

Nothing gives one person
so much advantage over
another as to remain always
cool and unruffled under
all circumstances.
THOMAS JEFFERSON

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When we are tired, we
are attacked by ideas
we conquered long ago.
FRIEDRICH NIETZSCHE

He that cannot be
angry is no man.
THOMAS DEKKER

The size of a man can be
measured by the size of the
thing that makes him angry.
J. KENFIELD MORLEY

The highest achievement of man
is a program for discontent.
HERMANN JOSEPH MULLER

Every society honors its
live conformists and its
dead troublemakers.
MIGNON McLAUGHLIN

A Text . . .

But the fruit of the
Spirit is love, joy, peace,
longsuffering, gentleness,
goodness, faith. Meekness,
temperance: against such
there is no law.
GALATIANS 5:22,23

*Sent in by Mrs. Velda H. Skagen, Appleton,
Wis. What's your favorite text? The Forbes
Scrapbook of Thoughts on the Business of
Life is presented to senders of texts used.*

Finish each day and be done
with it. . . . You have done what
you could; some blunders and
absurdities no doubt crept in;
forget them as soon as you can.
Tomorrow is a new day; you shall
begin it well and serenely.
RALPH WALDO EMERSON

Isn't your life extremely flat with
nothing whatever to grumble at?
WILLIAM S. GILBERT

eds *Wilhelmina Cullen Robertson* *E Claiborne Robt*
 1871 *James Clark Robt* *Wm. B. Robt*

Cézanne and Sotheby's



In 1922, Sotheby's accepted for consignment the work of a controversial French artist, Paul Cézanne. The paintings all sold. In 1982 "Still Life with Apples and Napkin" was sent from abroad to be auctioned by Sotheby's, New York. Vying against intense sale room and absentee bids from international collectors and dealers, an American, bidding on the telephone,

acquired the Cézanne. The outstanding price of \$1.98 million was achieved because Sotheby's marketing created wide international interest in the Cézanne. Sotheby's is the forum where great works of art meet serious collectors. For information on the purchase or sale of fine works of art, contact Sotheby's, 1334 York Avenue at 72nd Street, New York 10021. (212) 472-3400.

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Those are a few brief examples of the creative ways in which insurance can be made to work for companies today. To be sure, there are others: high deductibles, other cash flow programs, rating plans and unbundling of services (that is, paying for only the insurance services you need) to name but a few.

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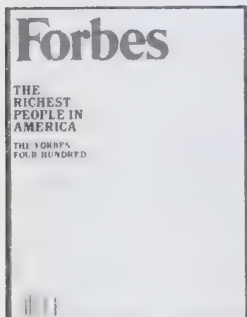
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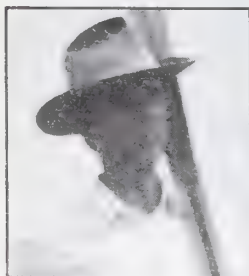
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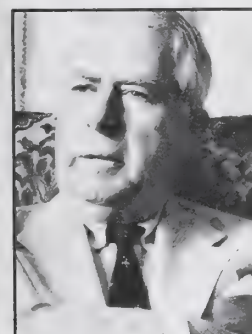
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"The Rich List"

That's our inside phrase for it—the Rich List—but more properly it's what the cover says it is: "The Richest People in America: The Forbes Four Hundred." This special report represents our best guesstimates—after a year of painstaking research—of who are the 400 richest people in the U.S. No ordinary millionaires these. To make the list you had to be a centimillionaire, worth at least what they call in Texas "a unit." What does it take to make and keep a unit or two? Material enough here to keep sociologists busy for years.

When the project was first conceived, the editors had doubts. Was the information available? We persisted and the results are most impressive, owing in large part to the talent of Senior Editor Harold Seneker, who ran the research and writing project. He was ably aided by Associate Editor John Dorfman and Senior Reporter-Researcher Jonathan Greenberg. Reporter-Researchers Jay Gissen, Robert McGough, Janet Bamford, Robert Teitelman and Laura Saunders also made major contributions, as did the FORBES research library, under Dolores Lataniotis.

We were aware from the start that many people would regard such a list as an invasion of privacy and a magnet for unwelcome attention. Against these legitimate concerns we weighed the role of this magazine: to report, interpret and publish matters of interest and value to the business community. What could be of more importance to such an audience than the subject of great wealth in America? Who owns what? How did they get it? Inherit or accumulate? What businesses and industries produced that wealth? It's all there, starting on page 99.

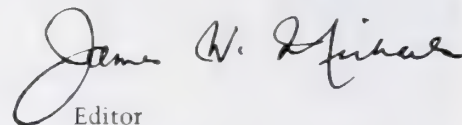
A new window

Another innovation with this issue: a regular feature on the interaction between business and technology. Dubbed simply *Technology*, the new column is edited by Senior Editor Stephen Kindel, who will be assisted by Reporter-Researcher Anne Field. At 35, Steve Kindel has already built a distinguished record writing about technology. Like a lot of us, though, he kind of backed into his ultimate career. He studied civil engineering but switched to a career in the Foreign Service, where he was struck by the tremendous thirst among foreign businessmen for news about new products and processes. So he moved to *Newsweek* to write on the subject and later became technical director for the ill-fated *Technology* magazine. When that folded, he came to FORBES.

Is running such a column a big change for FORBES? Not really. Here's how Kindel sees it: "Someone very smart once defined a well-run business as consisting of three windows: a capital window, a marketing window and a technology window. The smart executive watches all three." Our new column will be watching the technology window for our readers. See page 206.

Happy days are here again. Maybe.

Having delayed its traditional August rally almost to month's end, the stock market made up for its tardiness by staging the biggest spurt in history. Are happy days here again? A couple of our columnists have their doubts (Ashby Bladen, p. 240; Sully Blotnick, p. 238). But on page 31, Associate Editor Priscilla Meyer reports that some of the Street's trend-sniffers think the party has just started. They are getting ready to cash in their winning chips on consumer issues and move into housing-related stocks.


Editor

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Nader's newest

Ralph Nader, consumerism's white knight, has never been bashful, but his latest plan for keeping the airlines on their best behavior may be a new high in nerve. When the Civil Aeronautics Board deregulates itself into oblivion in 1984, as the law now dictates, Nader wants to create a new watchdog—his own. What's more, he wants the airlines to help him do it. He has written to the CAB chairman asking the board to direct the carriers to include solicitations in their airline ticket envelopes for contributions to Nader's still unnamed organization.

America's playgrounds

The three-year-old political brouhaha over who should pay what to use the national parks has been joined by a new voice, the General Accounting Office, Congress' watchdog. Admission to the wilderness playgrounds should be hiked by as much as 250%, the GAO says, arguing that this would produce at least \$21 million to help meet rising costs, with little or no effect on visitor traffic. Three years

sion, including Yellowstone, Grand Canyon, Everglades and Yosemite. Fees at these, the agency said, should rise \$3 to \$5 per car. The GAO also recommends fees for 23 of the 45 free parks it studied. Collection hours should also be lengthened, the report said, noting that perhaps 30% of Yosemite's visitors may have entered after the admission offices were closed for the day.

That paper in the "float"

Consumers and now Congress are getting more aroused over banks that embargo deposited checks to let them clear before crediting them to an account. Length of the hold ("delayed funds availability" in bank jargon) can run from 1 to 20 days, which economics professor Robert McEwen, ex-president of the Consumer Federation of America, calls "an unconscionable imposition." (A 1978 survey, the latest, showed that 38% of commercial banks employed the practice.) A spokesman for the American Bankers Association told the Senate the problem of bouncing checks was serious and that outstanding paper in the

chairs the Senate's banking subcommittee on consumers, doesn't want to legislate changes, preferring to rely on voluntary moves being discussed by the ABA and the Fed. If those don't pan out, however, an aide says the senator may decide to act.

The hot books

Newsweek's space salesmen may be losing one of their strongest talking points—the edge in total advertising their weekly has enjoyed over its archrival, *Time*, since 1968. In 1981 *Newsweek* sold 3,130 pages, compared with *Time's* 2,908. Both publications have been hit by the recession, but *Newsweek's* drop has been much sharper. A year ago *Newsweek* enjoyed a 170-page advantage; now it is 36. Why? *Newsweek* would say only: "We had more pages to lose." R. Joseph Fuchs, a Kidder, Peabody media specialist, had no better explanation but said, "I think it's a function of editorial focus; a function of management; a function of advertisers being more careful of the dollar they spend and more careful to spend for the dominant book in any market." That last could be the operating factor. Herd instinct is always strong along Madison Avenue, and the "hot book" syndrome has been driving magazine ad managers mad for years.

Let 'em eat caviar

The jet set, too, has felt inflation's pinch—sort of. According to a "luxury inflation" index concocted by Moët & Chandon, the champagne people, a round-trip ticket on the Concorde from New York to London soared nearly 58% in the last two years, to \$3,976; Broadway theater tickets now run 45% more than in 1980; at \$8,190, a year's Ivy League tuition (no board) is up 18%. The picture isn't all black. Mink coats have held steady at \$10,000, and a seven-ounce jar of Beluga caviar still goes for only \$199. And champagne? Up only 11%, to \$50 a bottle.

The graduated tax cut

If your income is more than \$35,000 a year, you may have noticed that the 10% tax cut you were supposed to get last July 1 was considerably less. "The highest income tax is 50%, and the highest withholding tax is only about 37%, so people at the highest rate are usually underwithheld," explains



Yellowstone's Old Faithful

Raising the ante on recreation.

ago, when the Carter Administration asked for far more modest increases, Congress balked and froze admission fees. The Reagan forces proposed ending the freeze earlier this year but withdrew their bill "for further study," while the Interior Department, which runs the parks, has been working on new fee schedules since April. After studying 71 parks, the GAO wants entrance charges to go up 150% to 250% at the 25 it looked at that now charge admis-

"float" could be big enough to threaten a bank's financial strength. (The banks, of course, pop the money into high-yield funds while waiting for the checks to clear.) Theodore Allison, a Federal Reserve staff director, says a little more than 1% of all checks collected by the Fed do bounce, a number that further outrages Professor McEwen, who calls it "overkill" to penalize millions of customers over that small a risk. Senator John Chafee, the Rhode Island Republican who

Greg Ballentine, deputy assistant secretary of tax analysis at the Treasury Department. "We try to write withholding taxes that mirror the law," he adds. Those with incomes of \$35,000 and above had 8.4% cuts in their withholdings last July; those with \$45,000 or more had 6.8%; and those with \$50,000 had 5.8%. The higher the income, the less the cut. But not to worry, says Ballentine. You will get your full tax cut when you file this year's returns.

Japan's breadbasket

The Japanese may be public enemies in Detroit, but they should be heroes in the Farm Belt. Japan can claim top rank as a buyer of U.S. agricultural products, spending \$6.6 billion last year, all but \$1.1 billion or so on food. American farmers supplied the Japanese menu with \$1.8 billion worth of corn, \$1.1 billion worth of soy beans and \$615 million worth of wheat. The big nonfood items on Japan's agricultural shopping list were cotton (\$504 million), hides for leather (\$255 million) and tobacco (\$302 million). Second to Japan on the customers' list was the Netherlands, with \$3.3 billion, followed by Mexico with \$2.4

ago, dealers had 1,675,000 unsold cars in their lots. With sales down from a year ago—and they were poor then—that 300,000 drop may not seem significant. But it does represent a tangible saving in financing inventories, and if car sales pick up, the lower overhang will add momentum—good news for the factories, at least. Dealers will push the 1983s, not the overhanging 1982 models, and that means increased replacement orders for the assembly lines. What is depressing sales? Price and "sticker shock," for one thing, although the big-spending car buff seems to be immune. General Motors' slick new Pontiac Firebird Trans Am, for instance, is selling briskly, and its price tag can run to \$16,000—\$9,658 for the base car and \$6,000 for extras like power seats and door locks, AM/FM stereo and power antenna, air-conditioning, tinted glass, antitheft system and other additions, plus destination charges and sales tax.

The price of virtue

The recession is taking its toll of merit raises, virtue's reward for service above and beyond the call of duty. Out of 250 companies surveyed by Towers, Perrin Forster & Crosby, a New York consulting firm, 40% reported that merit raises for factory workers, secretaries and the executive suite would be 2.5% less than planned, or only 8.5%. At firms working on their 1983 budgets, raises will get even smaller then, down to 7.5%. Some 24% of the companies checked planned to reduce compensation costs by deferring raises across the board, by freezing, or by cutting pay.

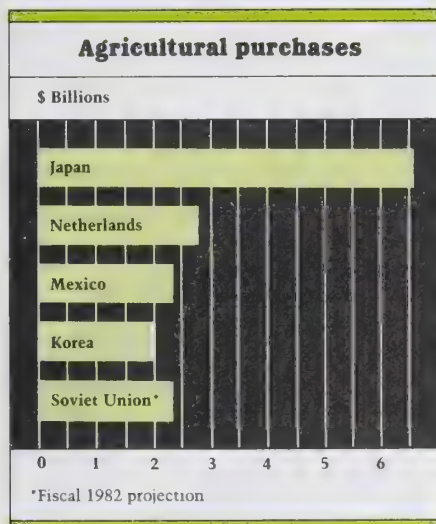
The back-room boys

Despite the recession, the back-room boys in research and development jobs seem to be holding their own. Wang Laboratories' R&D hiring is expected to be 15% higher this fiscal year than last, which in turn was 15% higher than the previous year's. Xerox, proclaiming that "intense competition calls for more advanced products," says that while other workers are being laid off, its R&D force remains virtually intact. Chemical firms and the American Chemical Society concede that the hiring pace has slackened. Salaries are higher—up 8% to 12% for recruits—but that is probably to keep pace with inflation. Generally, starting salaries for engineering graduates run from the low \$20,000s for bachelor degrees to the high \$30,000s for Ph.D.s. The Nation-

al Society of Professional Engineers says median income for experienced engineers is \$37,963 for four-year graduates and \$45,908 for Ph.D.s.

Start the presses!

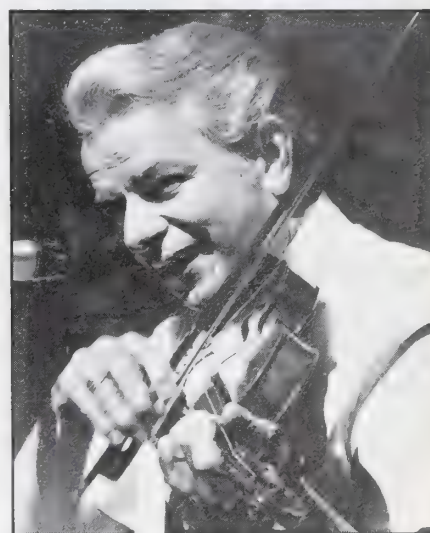
Now that interest rates are dropping, Democrats in Congress say they can keep them falling, their first serious proposal for stimulating the economy. The current prime rate of 15%, says Robert Byrd, the Senate Minority Leader, is still too high and "our bill would let the prime rate come down to between 9% and 12%, low enough for a strong recovery." The rationale is that if inflation gets down to 6% next year, as some economists say it will, Byrd's plan would make the prime rate no higher than 10%. He would have the Federal Reserve pump enough money into the economy to keep borrowing costs no more than 1% to 4% higher than inflation. But wouldn't this mean interfering with the Fed's traditional independence? No, says the West Virginia Democrat, pointing out that Congress created the Fed in 1913 and still has the right to coin money and "regulate the value thereof." He concedes that lower rates would cut the dollar's worth



billion and Korea with \$2 billion. The Soviet Union, which is getting the agricultural headlines, is expected to spend \$2.4 billion on purchases of U.S. farm output this fiscal year, 90% of it for grain, according to the Department of Agriculture.

A glint for Detroit

The auto industry, where good news is a rarity, can find a smidgen of consolation in its dealer-inventory figures. When this year's "clean-up" of 1982 U.S. models began on Aug. 1, the total on hand was 1,377,000. A year



Senator Robert Byrd

Tuning up when the dance is over?

overseas but argues that it is already "seriously overvalued." The Byrd bill would have Congress set yearly targets for growth of the money supply, beginning in 1983; but the idea won't be going anywhere, at least for a while. The word from the office of Tennessee Republican Howard Baker, the Senate Majority Leader, is that there will be no effort this year to make any move affecting the Federal Reserve.

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Follow-Through

Citi—coast-to-coast

Although bankers have long chafed
under the 1927 McFadden Act's for-
bidding them to cross state lines, they
have never mounted a real assault
against the law. Instead, they have
seeped across with Edge Act banks
(which do only international busi-
ness), "loan generation offices," and
other ploys that let them do every-
thing but accept deposits (FORBES, *Fol-
low-Through*, Sept. 15, 1980).

Now, that wall has been breached.

To rescue California's Fidelity Sav-
ings & Loan, the Federal Home Loan
Bank Board has approved Citicorp's
bid for the \$2.8 billion S&L. When the
Federal Reserve completes its hear-
ings, it is expected to add its blessing,
and Citicorp will be operating coast-
to-coast. The acquisition marks the
first time a commercial bank has been
allowed to leap state boundaries and
acquire an S&L. (A dozen other merg-
ers engineered by the Bank Board to
save failing thrifts have involved only
other S&Ls.)

The opposition has been fierce. "An
exercise in arrogance," said Linda
Tsao Yang, California's commissioner
for S&Ls. "We don't think that's
the way to handle the problem," was
the resigned reaction of the Bank of
America (which will become second
to Citicorp among bank holding com-
panies when the deed is done). For the
Bank Board, the move was simple eco-
nomics. Citi, with \$120 billion in as-
sets, made the best offer, one that will
cost the federal insurance agency
\$143 million less than the next bid,
and \$303 million less than running
Fidelity for another ten years.

Citicorp will clear the McFadden
Act's last hurdle when it starts taking
deposits in Fidelity (although that
money will have to stay in the S&L's
coffers). To make it plain, the big New
York bank plans a new name for Fidi-
lity—one that will include the magic
word "Citi."

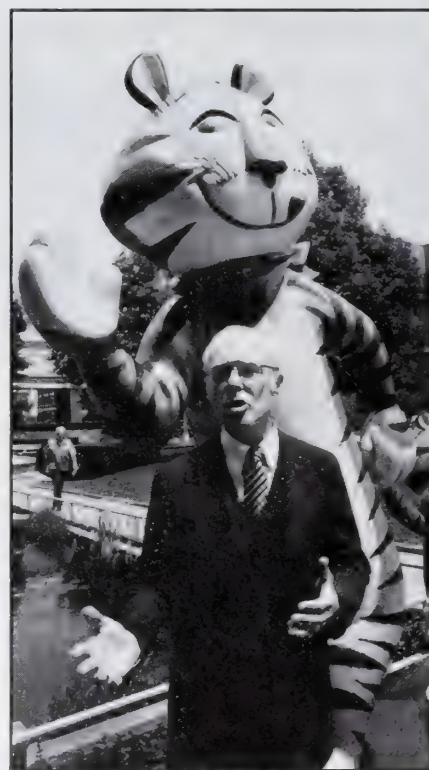
Breakfast at Battle Creek

Few competitors in the food game
would not trade numbers with Kel-
logg Co. The Battle Creek, Mich. cere-
al maker's 8%-plus margins, 22%-
plus returns on equity and 13.5% av-
erage earnings growth during the past
decade have not only been enviable,
but as reliable as the sunrise. Last year
(July 20, 1981), though, FORBES spot-
ted a cloud over the lair of Tony the
Tiger. While Kellogg still served up

twice as many bowls of cereal as its
nearest competitor, General Mills, its
market share had gone soggy, drop-
ping three share points since 1977.

Chairman William LaMothe ad-
mitted his concern. (Each market
share point in this \$3 billion market is
worth \$25 million.) His answer to the
problem a year ago: Nutri-Grain, a
whole grain, no-sugar cereal. But con-
sidering the undistinguished taste of
the new flakes—healthful or not—
FORBES wondered whether enough
people would buy a truly unsweet-
ened cereal (even Kellogg's Corn
Flakes contains sugar).

After Kellogg plunked down some
\$50 million to develop and push Nu-
tri-Grain, the cereal had only a 0.7%
market share in 1981, half what La-
Mothe had hoped for and disappoint-
ing for an expensively hyped product.
The company says Nutri-Grain now
has a 1% share. Two of its four fla-
vors, rye and barley, have been killed,
and in June LaMothe created a new
flavor, Nutri-Grain Wheat & Raisin,
by adding raisins, an old trick to boost
sales of any cereal. "The raisins make
it a little more palatable," says La-
Mothe. "We're very optimistic about
Nutri-Grain; however, while the real
advocates of whole grain, no-sugar ce-
reals may be vocal, realistically there



Chairman LaMothe and Tony
Looking for more snap, crackle, pop.



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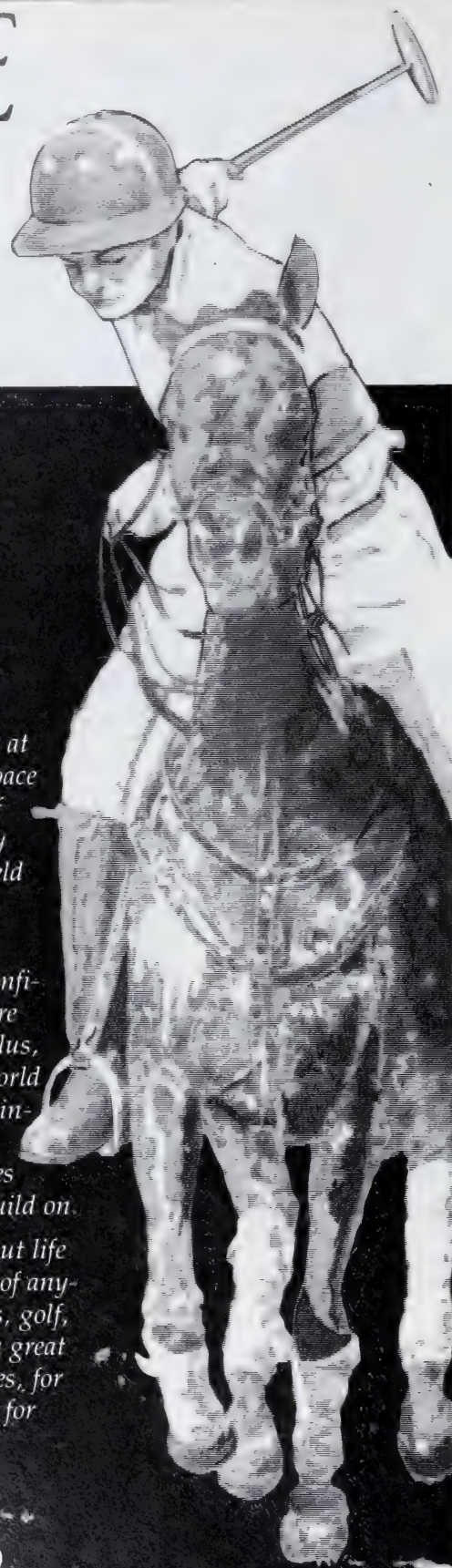
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*Kris L. Weddle
Tulsa Area Development Commission of Tulsa
620 S. Boston, Tulsa, Oklahoma 74119 (918) 585-1201*



Follow-Through

aren't that many of them." Chalk one up for the sweet tooth.

While LaMothe says he's not embarrassed by Nutri-Grain's first year, 1981's new products did not add the hoped-for snap, crackle and pop needed to stem overall share erosion. Last year Kellogg lost almost another two points, reducing its market share to 39.3%, according to Lehman Brothers Kuhn Loeb analyst John Maxwell. Of 18 pre-Nutri-Grain cereals, 12 cereals lost market share, 5 others remained static, and only 1, the relatively new Raisins, Rice & Rye, gained two-tenths of a point, the worst companywide showing in the business for the year. Even old standbys faltered: Corn Flakes down 3% in market share, Special K down 11%, Product 19 down 18%.

The problem? Competition from cheaper no-name and private-label brands, for one thing. Nor has Kellogg been nimble enough in bringing out new products, complains Dean Witter's Lawrence Adelman. Developing new cereals to wake up consumers is the name of the game today in a slow-growth business whose tonnage expanded less than 2% last year, *vs.* the 13% growth high in 1973.

"With something like 200 brand choices today, it's a much bigger challenge to get a new niche in the market," laments LaMothe, "and I don't think the competition is going to ease up. We've got some very big, aggressive competitors who know the opportunities available if you do this job right." That could mean Kellogg will slip further if things go on as they have been doing, explains Adelman, who thinks the \$25 stock with a 9 P/E is too expensive. But Adelman believes things are changing. "The heat in the kitchen has gotten hotter, so now they're paying more attention to the markets and being more aggressive," he says.

Last February the price of Kellogg's Corn Flakes was reduced 8% to combat the generics. LaMothe is also working on more new products. And Kellogg, already the low-cost producer, continues to install new technologies. But will all this translate into more bowls of Kellogg's cereal at the breakfast table? Lehman's Maxwell, who is bullish on the company, says his reliable industry sources indicate Kellogg has now finally stopped the market share decline. Whether the tigers from Battle Creek can continue to hold the line, however, only tomorrow morning will tell.

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Readers Say

I'm still buying

SIR: When the market acted as it did
after your article ("Doomed?" Aug.
16), I bought another 1,000 shares of
Southern Pacific stock. Please don't
tell me when you plan another hatch-
et job, as I don't want to be accused of
trading on insider information.

—B.F. Biaggini
Chairman,
Southern Pacific Co.
San Francisco, Calif.

Subsequent to the appearance of the
FORBES article, Southern Pacific stock
dropped about five points, or 17%.—ED.

Union Oil at risk

SIR: Re "Side Lines" on Union Oil
Co., in the Aug. 16 issue of FORBES:
"Union digs while Mobil talks."
Union Oil Co. has \$400 million in
price supports from the Synfuel
Board. Union cannot lose on their
venture no matter how low the price
of oil is when they go into production.

—Ralph Freedman
Town Administrator,
Parachute, Colo.

There will be a support price when
production begins next year, but Union is
still exposed. If market price drops below
last summer's average plus an inflation
index, the Department of Energy will
make up the difference. The maximum
would be \$400 million, a number that,
under the agreement, would be spent
over a seven-year period starting late next
year. Union is putting nearly \$600 mil-
lion up front into the project.—ED.

Which one?

SIR: Re "Interest Rates Headed
Down" (Fact and Comment, Aug. 16).
Interest rate on what will be 14% by
year-end: Treasury bills, notes, bonds,
Federal Reserve discount, Federal
funds, bankers acceptances, bank
jumbo CDs, bank prime, commercial
paper, home mortgages?

—John C. Stewart
Sonoma, Calif.

Bank's prime rate.—MSF

Not abandoning ship

SIR: Re your piece on the use of chief
executives in advertising (Personal Af-

fairs, Aug. 16). I still believe that in the
choppy, economic seas the car rental
business is going through, the captain
should be on the bridge of the ship,
particularly as it is his intent to prove
to all that his company is not for sale
but instead he has a commitment to
the business and intends to stay in it
despite any unidentified sources who
have stated otherwise.

—David J. Mahoney
Chairman and CEO,
Norton Simon Inc.
New York, N.Y.

Simplified 1040

SIR: Did you ever get the feeling that
the flat-rate tax form ("The flat tax
that isn't," Aug. 2) will someday look
like this?

—Thomas A. Lash
San Jose, Calif.

Latest Revision for
1040 Federal Income
Tax Form
Department of the Internal Revenue Service

82
07

Your Social Security Number _____

Part 1 Income

1. How much money did you make last year?....

2. Send it in

Uncommunicative M.B.A.s

SIR: Further on your point about illit-
erate engineers, "MIT To Turn . . ." (Fact and Comment, Aug. 16), did you
know that only 5 of the top 21 U.S.
universities (rated by the National
Education Standard) instruct or test
participants in their M.B.A. programs
on communications?

How can you possibly be annointed
as a "Master" of business administra-
tion until you've proved able to work
with the basic tool of management—
effective communication?

—Iain Woolward
San Francisco, Calif.

No fear of simplicity

SIR: I'm delighted and flattered by
your review of my book *The Ultimate
Resource* (Fact and Comment, July 19).
Some people think that plain praise

indicates that the praiser is a simpleton. I'm glad you're not afraid of that.

It was nice to be on the same page with [Yale President] A. Bartlett Giamatti. We corresponded a while ago about a lovely article he wrote on Muhammad Ali, and about whether it is amazing to find a professor of English and a professor of economics who can write well.

—Prof. Julian L. Simon

University of Illinois

Champaign, Ill.

Revealed!

SIR: Blast you!

We, who are regulars at the Stafford Hotel in London, try to keep it a secret (*Personal Affairs*, Aug. 2).

—Placidia Carter

Santa Barbara, Calif.

Precarious use of word

SIR: Your Aug. 2 book review of *Halfway Around the World—An Improbable Journey* states that readers should "precariously" enjoy the adventures of wandering the high seas. The correct word is "vicariously." Could it be a typesetter's mere frolic and detour?

—Barbara J. Smith

Chicago, Ill.

Yes.—MSF

Valid point

SIR: In "The 100 largest U.S. multinationals" (*July 5*), Atlantic Richfield Co.'s foreign revenues as a percentage of total revenues was stated at 83.9%. Apparently a decimal point was misplaced, as the correct number is 8.4%.

—Claude O. Goldsmith

Senior Vice President,

Atlantic Richfield Co.

Los Angeles, Calif.

We're well dressed

SIR: I take exception to that part of the article on Royal Crown Cola (*Aug. 16*) that deals with personal dress of RC bottlers.

Having attended soft drink conventions for over 30 years, I can attest that the attire of our bottlers is certainly above average.

—Laurens C. Nicholson

Nebi-Royal Crown Bottling Co., Inc.

Greenville, S.C.

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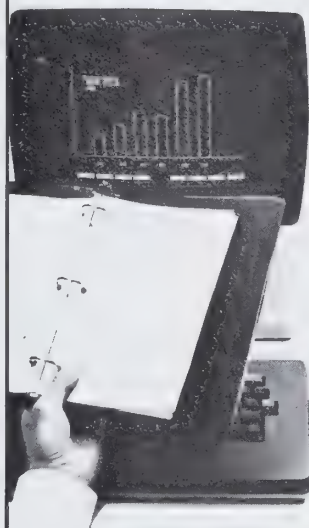
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FO 9/82

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FO82

**"Guest Quarters hotels will impress you immediately.
They have luxurious suites instead of rooms.
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to ask me to tell you about them."—Dick Cavett**



Mr. Cavett is shown relaxing in the living room of a spacious Guest Quarters suite

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arrangements may also be made for small business meetings or private parties.

"Even if you're only going to be in town for a night, you may now spend it more comfortably than ever before, without paying extra for the privilege.

"I encourage you to reserve a Guest Quarters suite in any of the cities listed. Tell them Dick Cavett sent you.

"I've always wanted to say that."

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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

WITH UNEMPLOYMENT HIGHEST SINCE THE GREAT DEPRESSION . . .

And at high levels for longer than any time since then . . .

With some of the most sizable segments—led by autos and housing—of our manufacturing industries at their most depressed in decades . . .

With recurrent jolting failures of financial institutions . . .

With more businesses failing than at any time in the past two decades . . .

With the whole economy agonizingly adjusting to the

very real pain of *deflation* . . .

Off what wall do you suppose come those optimists who still think *inflation* is the most imminent problem we face?

The sudden decline in interest rates reflects delayed awareness of the present grim economic reality.

The stock market's excitement reflects—rightly, I believe—the belief that six months from now most all businesses will be doing better.

HAIL TO THE CHIEF

That traditional musical salute is rendered to whoever holds the office of President. As his televised tax policy talk to the American people demonstrated yet again, in the case of Ronald Reagan, the man in the office as well as the office itself deserves the tribute.

Listen, whether you were for or against the final measure in toto or just in part, you have to admit it took courage and leadership, just a few short weeks before elections, for the President to put his head on the chopping block with a huge tax measure that plugs tax loopholes, modifies excessive tax advantages. And companion legislation reduces assorted government largess by \$13 billion.

The President's statement on TV was clear, reasonable, fair. And, fortunately, persuasive.

To think that the nation could blithely ignore the prospect of a federal deficit of \$180 billion (give or take 10 or 20 billion) and do nothing about spending reduction and revenue adjustment is simply simpletonian.

Reagan has more political guts in his little finger than most of his baiters have in their torsos. He'll need that toughness next year too, when Washington and the nation have to face up to readjusting entitlements, such as Social Security, for future beneficiaries, and making fiscal sense out of projected nonsensical defense spending.

DRAFT REGISTRATION DEFIANCE INTOLERABLE

It was appalling enough that the government took so long to indict those young men defying the law requiring them to register for the draft on *ideo(t)logical* grounds after turning 18. Now, would you believe, there are those who say there are so many unregistered that it is doubtful the draft registration law can be enforced at all!

Most unregistered are unregistered as a result of ignorance or sloth. A few successful prosecutions will raise the percentage of compliance from the presently estimated 80% back to 95% plus.

Making compliance with the registration requirement

unavoidable shouldn't be at all difficult. Any male over 18 who applies for a Social Security number should have to supply his draft number; any male turning 18 should have to supply his draft registration number before any of the 50 states could issue him a driving license; any employer hiring an 18-year-old should be required to record the young man's draft registration number.

Given these simple requirements, very few would continue not to comply—for whatever reason—with a registration considered so important to our security and survival as a nation.

WHILE MALCOLM TOON MAY HAVE BEEN A FIRST-RATE AMBASSADOR

his recent tirade, directed personally against our present Ambassadors to England, France, Italy and Mexico, certainly suggests there's little residue from his long career as a diplomat.

Obviously those who've made a lifetime career in the foreign service think no one else should get ambassadorial posts. That's a bit the way politicians feel when an "outsider" gets the White House, or how executives respond in a big corporation when the board brings in a CEO from the outside. While one can tolerate their intolerance on the subject, such views have virtually no validity, no value.

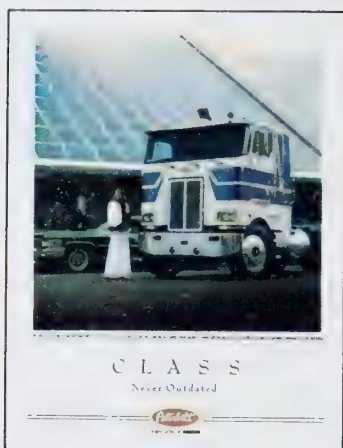
Every country, including our own, most desires to have assigned to it an ambassador who has the ear of his country's Head. Invaluable to a president, or a prime minister or whatever title the functioning national chieftain bears, is an ambassador who by virtue of personal

relationship can get the message to his boss. We've probably had more career turkeys in ambassadorial posts than boo-boo-ing personal presidential appointees.

Some of these career diplomats get so stuffed with their own importance after waiting so long to reach their civil-service pinnacle that they make lousy conduits from their country or for the country to which they're accredited. Their disdain for politicians, such as U.S. Presidents, their aloofness from involvement or identifying with the country they're stationed in frequently make such ambassadors a pain in the neck in both capitals.

It makes one wonder how Ambassador Toon in his many responsible posts, including Moscow, could have served his country well if one is to judge by his nasty vilification of our country's present ambassadors to countries so consequential to us.

THAT SEX HAS A FUNCTION IN LIFE



is a happy truth. The juxtaposition of the beautifully gowned beauty in the Peterbilt ad doesn't strike one as an incongruity. It's a first-class pitch.

Now look at the Kohler advertisement — which has to be the ultimate absurdity in juxtapositions. It's enough to make one head for the nearest bathroom fixture.



BOSS BOB LINDEN WAS WAY DOWN THE LADDER

at Drexel Burnham Lambert when it came to 1981 income. "I was 28th on our company's compensation list last year and would be very happy to be 50th or 100th this year," he told us.

We were discussing the anomalies involved in the occa-

sionally glittering compensations for a firm's star wheeler-dealers, those who bring about mergers or help the successful sundering of orphaned subsidiaries.

On Wall Street, partners never mind salesmen's coups. Such ensure enough for all.

DO KIDS STILL PLAY MARBLES?



Playing at Marbles

WILLIAM BROMLEY

These two paintings brought back memories of how important marbles ("Immies") were in our schooldays. The gamut of colors, designs; the quality of one's aggies, clears, steelies, even real marble sometimes and of prized "shooters"; the status of the best players—all were a major part of the tapestry of those not-always-tender years.

Do the kids today still play marbles, or have they lost theirs to TV, skateboards, porn and Pac-Man?



Cat's Eye

JENNY RUTHERFORD

THERE ARE DOUBTLESS MISTAKES OF OMISSION AND COMMISSION

in this first annual *FORBES* Four Hundred, a compilation of America's richest. The enormity of this task virtually ensures some overestimates, some underestimates, some whose wealth has not been estimated and should have been, and even some who should not have been included at all. Our honing, however, will grow sharper every year.

Much consideration preceded this unprecedented undertaking. Many people, uncountable hours and immeasurable shoe leather went into it.

The most arresting aspect of the project came during the checking procedure, when each of those listed was contacted and asked to comment on *FORBES*' estimate of his or her worth. Predictably, some were furious—for assorted reasons. Among the genuine ones, there was a genuine

concern that such listing might make them targets of unwanted attention. In most such cases though, through published figures of income, bonuses or known size of stock holdings (much the same sources our staff used in the first place), the less-known wealthy are better known than they sometimes like to think.

Surprising, though, were the number who were thoroughly cooperative and, in some instances, very candid as to whether they did or didn't belong on such a list. Many famed "traditional" wealthy are now much less so. Many wanted out of the listing, but not to be out of what included them in.

For better or worse, for richer or for poorer, herewith *FORBES*' best estimate of America's 400 richest.

GARLIC

In a recent issue of *Cosmopolitan*, Carol Tiffany has done to garlic what Churchill's volumes did to World War II. My own wee thought, expressed to her for that article, on this favorable essential to tasteful living: Garlic, after

the eating, too often interferes with a multitude of sinning. It may be, as some folklore would have it, an aphrodisiac, but does it seem likely that a turn-on would be at one and the same time such a turn-off?

ANY CEO WHO CAN'T HANDLE

down periods won't have too many years Up.

POOLED JUDGMENTS

usually don't hold water.

PAUL VOLCKER: RELUCTANT SAVIOR

By M.S. Forbes Jr.

The most encouraging development on the economic front was not Wall Street's explosive rally but rather the key impetus behind it: Paul Volcker's dramatic change in monetary policy.

If the Federal Reserve chairman had had his way, the opening up of the money spigot and the decline in interest rates would have been far slower, more deliberate—and the recession would be longer, deeper as a result. But if Volcker wished to uphold the Fed's *raison d'être*—preventing a financial collapse (something it didn't do in the early Thirties)—he had to move quickly, and he did.

The Fed in recent weeks has given every signal possible that it was moving aggressively to bring interest rates down, to provide liquidity to the financial system.

There is no mystery to why Chairman Volcker made a seeming U-turn: The central bank was facing a global version of the Penn Central crisis of 1970. In this case it was a country, Mexico, rather than a rail-

road that was shaking the financial system.

Today, obviously, the situation is more dangerous, more complicated. Every industrial country is in a serious recession. The signs of unraveling are everywhere: the AEG-Telefunken bankruptcy in Germany, a major bank failure in Italy and now the sudden, shocking collapse of Mexico. Other countries, not to mention numerous businesses, are unable to finance their debts. These blows have already started a "flight to quality," *i.e.*, the dollar.

In this delicate situation, any sign that the Fed was squeezing credit would quickly have had destructive consequences.

Much of the economic news for the next six months will be grim. The Fed and other central banks will prevent a general collapse à la 1931, but they won't be able to save a good many businesses and individuals from the deflationary pressures that have been at work.

Nonetheless, thanks to the force of events forcing the Federal Reserve to ease its vise-like grip on credit, the possibility of an econom-

ic recovery next year has improved dramatically. Volcker will certainly back off a bit when the markets are calm, but there are too many shoes ready to drop for the Fed to squeeze the way it has in the past.

The resulting lower interest rates will improve country and corporate cash flows. Companies are leaner; it won't take much of a boost in sales to boost profits materially. With more reasonable financing costs now a genuine possibility in 1983, consumers, whose balance sheets have improved in the past two years, will be less hesitant in borrowing to buy big-ticket items or even houses.

On the international scene, countries like Mexico may learn to rely more on their entrepreneurs than on their bureaucrats to guide their economies.

Most important, when its fire-fighting duties begin to ease a bit sometime next year, the Fed may turn its attention to thinking about a new monetary system that will prevent a repetition of the inflation-deflation whipsawing that has brought us so close to the brink.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

Free of Charge

When J.P. Morgan happened to be quoted as saying, "America is good enough for me," William Jennings Bryan's *Commoner* retorted: "Whenever he doesn't like it, he can give it back to us."

—*The Very Rich*,
by Joseph Thorndike Jr.

Never the Twain . . .

Unfortunately, common sense and tax law are rarely even waving acquaintances.

—Judge Edward S. Smith,
U.S. Court of Claims

Thoughts in a Mellon Patch

by Paul Mellon

Each generation has its rules,
And Mellons never have been fools.
Some have thrived, a few have failed,
But hardly *any* have been jailed.

Though some of us are fond of horses,
And some have scandals and divorces,
And some like fishing, some like art,
Our paths are never far apart.

We mind our business, love our friends,
Grow old, collect our dividends,
Nor do we shrink from healthy toil,
(Though sometimes it is eased with oil!)

Each generation has to face
Its triumphs or its faults with grace.
Each, as it labors or relaxes,
Itself is faced with Death and Taxes.

So, though he was a stern old Judge,
I'm sure he wouldn't now begrudge

Our foibles and extravaganzas,
(Or even these poor foolish stanzas!)

Perhaps he'd smile from up above
With ancient grand-paternal love
To see us dance and dine and wine,
All Mellons on his fruitful vine.

—*The Mellons*, by David Koskoff

Money Morality

"I know you know that in the past I've done a few things that wouldn't be countenanced by a firm like yours. But that was housing. . . . Now that I'm in your bailiwick, I expect to be guided by your rules."

John laughed. "Meaning you're too rich now not to be honest?"

—*A World of Profit*,
by Louis Auchincloss

"Allye, Allye in Free!"

The federal government's deposit insurance program guarantees 100% of deposits up to \$100,000. However, in practice, when regulators have arranged mergers of failed banks or infused them with capital, all liabilities have been insured—including those above the \$100,000 cutoff.

This practice has meant double trouble. It has created the perception that all bank liabilities are riskless; why not buy a big CD from Penn Square if it's guaranteed by the full faith and credit of the federal government? And it has created the perception that bad banking practices will go

unpunished; why not run a portfolio of risky loans if the feds will backstop any difficulties? Why should a Yahoo bank like Penn Square pay for its deposit insurance on the same basis as the most conservative enterprise?

—*Wall Street Journal* editorial

I wish to become rich, so that I can instruct the people and glorify honest poverty a little, like those good, kindhearted, fat, benevolent people do.

—Mark Twain

Awakening to a Nightmare?

The Russians have one-third of all their military forces tied up along the Chinese border. [We] have to look at this whole [Taiwan arms] problem from the standpoint of the world balance of power. There is a faction within the Chinese establishment that would like to make an accord with the Russians. There is a military faction that says it's hopeless for the next 20 years trying to provide a defense for China; the only thing is to do it politically. And we could wake up one morning and find another 1939 Hitler-Stalin pact with a new group in power. The whole balance of power could shift overnight.

—Senator Henry Jackson,
(D-Wash.), on *Face the Nation*

What No One Can Take

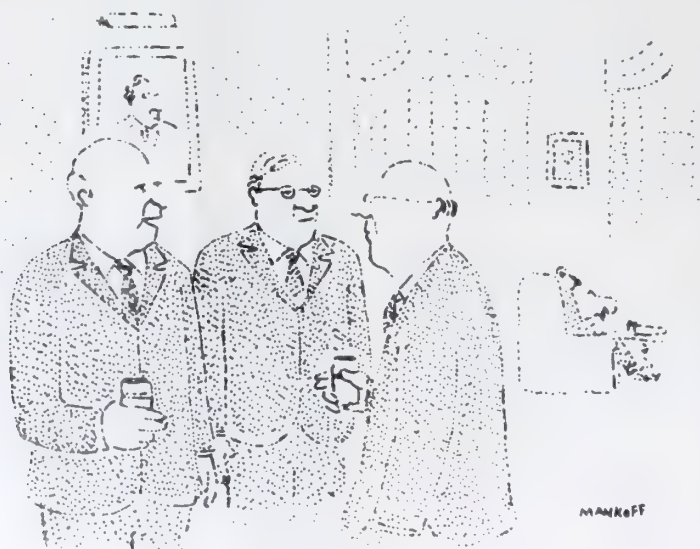
Material things, your property can be lost, stolen or even forcibly confiscated. This happened to me and many of my countrymen some 20 years ago in Cuba. I hope you never experience anything like that, but it has left a lasting impression with me. No one can take away from you what you have stored inside your head. The human mind knows no capacity, so *open it up*. Explore as many avenues as you can. *Every* experience can be a learning experience.

—Roberto Goizueta, CEO,
Coca-Cola, at Cheshire
Academy Commencement

The Tricky American

When an African sees five ragged Americans sharing the same bottle of Coke, he knows they all have millionaire fathers in Milwaukee, and considers he is being conned.

—Ted Simon, *Jupiter's Travels*



MANKOFF

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"And you, Al, what would you do if you had only a million?"

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**Metropolitan
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THE "FED LED" RECOVERY

WALL STREET HAS THE FEDERAL RESERVE TO THANK for the August rally in stock prices. More than a little scared about the possibility of a full-blown financial crisis, the Fed is pumping money into the economy.

What's remarkable is just how quickly the medicine has taken effect. Three drops in the discount rate between July 20 and Aug. 13 have knocked short-term interest rates down by 30%. Rates on 90-day Treasury bills, for example, have fallen from 11% to 7.7% since late July. Long-term rates, the key to a sustainable recovery, are also drifting down.

The fundamentals remain weak

BUT DON'T LET ONE EXPLOSIVE WEEK in the stock market fool you about the economy. The chief cause was institutional money managers, chasing each other's tail in a classic buying panic. The underlying economic fundamentals are still very, very weak.

The vagaries of the stock market aside, the long-term benefits stemming from the expansionary Fed policy, along with the Administration's newfound pragmatism about reducing budget deficits, are real. The economy has been brought back from the brink, and groundwork for a recovery is finally falling into place. The recession is bottoming out. But real improvement will take time, and neither consumers nor business will lead the way. "This will be a Fed-led recovery," says E.F. Hutton's chief economist, Edward Yardeni, who until lately had been a superbear.

Fears of "crowding out" are disappearing

THE ABRUPT ABOUT-FACE BY HENRY KAUFMAN of Salomon Brothers and Albert Wojnilower of First Boston ignited the stock market rally. The reason "Dr. Death" and "Dr. Doom" have at last forecast declines rather than rises in rates rests on their conviction that things are getting worse. Rates will fall, each concluded, because the economy is so weak that demand for money is no longer strong enough to keep them up. But in that depressing judgment there is a flip side of greater importance. It means that the Treasury's heavy borrowing—some \$100 billion in new cash in the second half—can be accommodated without "crowding out" the private sector and putting renewed upward pressure on rates. It also means that an upturn can take place without the boom-and-bust cycle that has plagued all earlier upturns.

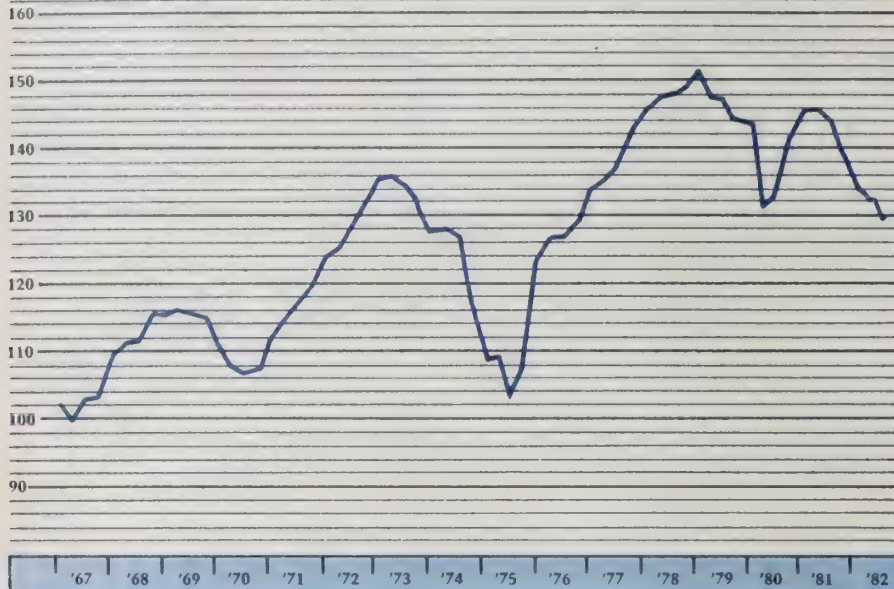
Rates will have to fall further

STILL, PROBLEMS PERSIST—BUSINESS CONTINUES to trim back capital spending plans and the bankruptcy rate remains high. Consumers, held back by sticky 18% rates on installment purchases and 16% rates on mortgages, are not spending. These rates will have to fall further before autos, appliances and home-building can be expected to come back strong.

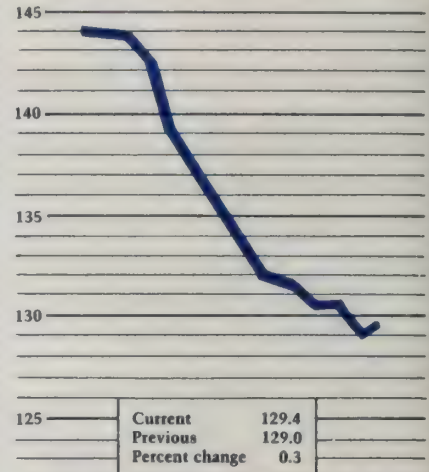
With Congress' having gone along with the Administration's tax package, fears about the fiscal 1983 deficit—the main factor that has kept rates in the stratosphere and postponed the recovery—should abate. Now that rates are dropping, the downturn can be followed by an ongoing, albeit weak, expansion.

The Forbes Index

Forbes Index



12-month close-up



Current	129.4
Previous	129.0
Percent change	0.3

Up, up but not away. The Forbes Index has once again posted a gain. Its choppy path in recent weeks indicates that the economy is searching for solid footing. Once that is established, the recovery should get under way.

Although none of the recent news is spectacular, it is almost all good. Personal income rose 0.5%, up from 0.1% a month earlier. This shows that the July 1 tax cut is having a definite impact on the economy. The psychologi-

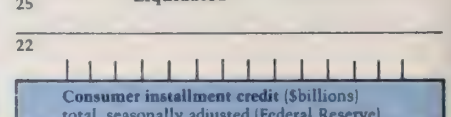
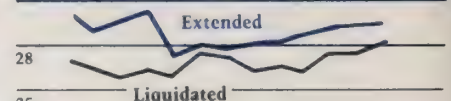
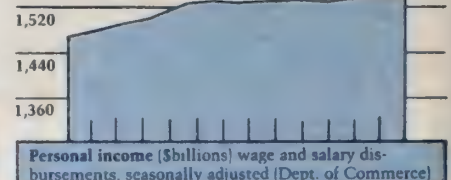
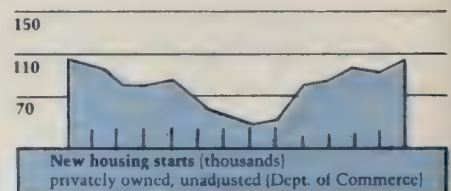
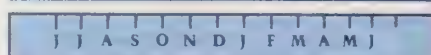
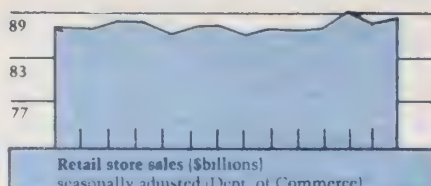
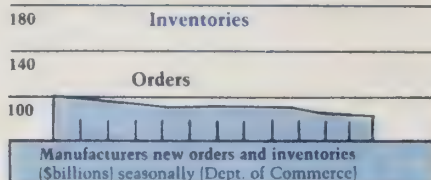
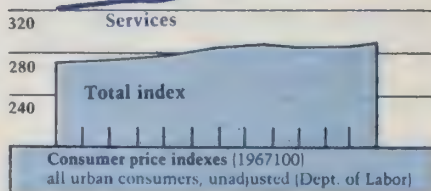
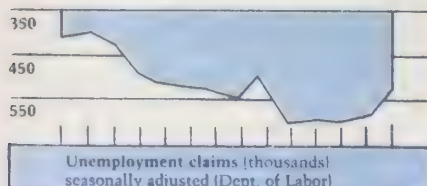
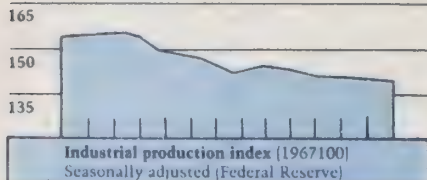
cal impact is even greater. Increasingly optimistic consumers pushed up retail store sales by 1% for this month.

The decline in industrial production narrowed to 0.1%, compared with a 0.7% drop the two previous months. Initial unemployment claims fell by 9.1%. Even total housing starts were up by some 18.9%. This figure is somewhat misleading, however, since single-family home starts are still in the doldrums.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.



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Keyboard 83 keys, 6 ft. cord attaches to system unit*	Languages BASIC, Pascal, FORTRAN, MACRO Assembler, COBOL	<i>Graphics mode</i> 4-color resolution: 320h x 200v.*
10 function keys* 10-key numeric pad Tactile feedback*	Printer Bidirectional* 80 characters/second 12 character styles, up to 132 characters/line* 9 x 9 character matrix*	Black & white resolution: 640h x 200v.* Simultaneous graphics & text capability*
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The stock market leaped nearly 100 points in five days. Some smarties made big, big profits. What are they doing now?

The second phase

By Priscilla S. Meyer

NEARLY 500 MILLION shares changed hands as the Dow Jones average jumped 98.74 points in five days last month. And some people made money. Big money.

The winners were largely institutions, since block trades accounted for a big part of the trading. Profits came on PepsiCo, McDonald's, IBM, General Motors and other companies that benefited from visions of consumers eagerly buying everything from autos to home computers. These were stocks that many professionals had bought weeks earlier, or even months ago, in anticipation of a rally.

But quietly, behind the scenes, some of the same institutions are talking about selling their consumer holdings and buying cyclical stocks, particularly housing, land development and building materials companies that have been dragging along the market bottom. The idea is that the old favorites are now almost fully priced, while other industry groups near their lows may soon make run-ups of their own.

Cyclical stocks, of course, traditionally move up and down with the economy. Some, like autos and airlines, have bounced above their January and February bottoms despite some poor earnings performance. Others, like

housing and lumber and other forest products, seemed largely forgotten until mid-August. Then these issues moved up with a bang: Along came news of rising building permits and falling mortgage rates, as well as simple knee-jerk reactions to the stock market rally. Interestingly, companies that are big plays in the heavy construction market, like Dravo and Fos-

ter-Wheeler, hardly budged, with little turnaround expected.

Housing analysts raced to retract their sell recommendations and put out buys—sometimes while research reports were still on the presses. At Bache, for example, Thomas Farrell dispatched new buy recommendations for forest products stocks like Boise Cascade Corp., Georgia-Pacific and Weyerhaeuser to the printer so fast that he didn't have time to change his housing industry recommendations. He says he should have added Jim Walter, Lone Star Industries, Payless Cashways, Ryan Homes and Texas Industries to his buy list as well.

"We are now where we were in March 1980," says Jeffrey Silver of Lehman Brothers Kuhn Loeb. "Rates dropped dramatically and the building stocks doubled and tripled; then rates began to rise again and the stocks fell apart in November." The same can be said for building materials issues.

Playing the housing stocks, however, is always tricky. Take Pulte, a Michigan-based developer already hitting new highs. In March 1980 it hit a low of \$9 a share. By early September the price was over \$24, but it dived to



Bulls stampede the Big Board
Sell GM; buy Deltona.

\$11 by the end of that same month.

Real estate development companies are even more volatile. Firms such as Centex, Deltona, Gulfstream Land & Development Ltd. and L. B. Nelson are taking off. But remember 1980. Then, for example, Gulfstream went

from \$7.25 in March to \$22.25 in December; six months later it was trading between \$13 and \$15.

"Construction and housing is probably the first place people would look for cyclical. The problem is, there are no first-quality issues," says a Boston

fund manager. In August, however, that didn't stop him. He picked up a block of Owens-Illinois, "primarily because it was cheap." That's the point—and why smart money expects those stocks to lead the second phase of this rally. ■

Few money market fund investors understand "repos." They would be wise to.

Repos and regrets

By Richard Phalon

DESPITE THE RECENT rallies in the stock and bond markets, financial insecurity looms large in investors' minds. Where's the next Mexico? The next Penn Square Bank? The next Drysdale Government Securities or Lombard-Wall, Inc.? The uncertainties explain a flight to safety—a rush by investors to shift cash from regular money market funds to those that specialize in U.S. Treasury securities. Ironically, as FORBES columnist Ashby Bladen reported last issue, funds that concentrate on government paper carry their own risks.

Many such funds (see table) are loaded with repurchase agreements such as figured in the debates that brought down two government securities dealers, Drysdale and Lombard-Wall.

The trouble isn't in the so-called repo agreements themselves, of course. They are basically collateralized loans, negotiated every morning in billions of dollars through the intricate net of telephone lines that tie bankers, brokers and money managers into the short-term market.

Repos have a very real function. They at once permit brokers to finance inventories of unsold government securities while enabling money funds to get a good return on idle cash not yet invested or

kept on tap to meet redemptions.

In effect, a broker sells a fund manager \$50 million worth of Treasury bills, say, at one price and contracts to buy them back the next day at a price high enough to provide the equivalent of the going annual return.

The broker, presumably, invests the cash overnight elsewhere at a still higher rate and everybody comes out

ahead—so long as the buy-back comes off on schedule. That's apparently what went sour with Manhattan's Lombard-Wall, which fled into Chapter 11 on Aug. 11. The securities dealer was arbitraging interest rates on repo advances, but suddenly somewhere the music stopped. Bankers Trust refused to clear the firm's transactions and the firm was thus unable to unwind a whole series of deals. When it headed for the protection of a Chapter 11 bankruptcy proceeding, its assets were frozen, and scores of trading partners were left at least temporarily holding the bag.

The Reserve Fund is the only money market to have surfaced as a Lombard-Wall creditor so far, but it is far from the only fund involved with repos. According to Bruce Bent, president of Reserve, the fund got out whole when the bankruptcy court permitted it to sell out \$37.4 million in T bills it was holding in Lombard-Wall collateral. But supposing the court had ruled otherwise?

The decision left fund executives breathing easier. The question of just who owns the underlying securities in a repo is still something of a legal conundrum. That being so, despite the New York court's decision, a repo, regardless of its collateral, might be little better than the seller's credit. Therefore, instead of owning U.S. Treasury securities, a fund might find itself sent to the end of the line as a general creditor of a defunct brokerage firm. In short, whatever else it is, a repo is not necessarily an instantly negotiable government bond.

How do you know about any particular fund? In the clear light of the Lombard failure, it's hard to find a fund that doesn't insist it is taking every precaution—accepting repos only from well-established primary dealers, demanding delivery of the collateral, insisting on adequate loan coverage and marking the collateral to market. It is equally hard to find a fund manager who doesn't think that there are other Lombard-Walls and Drysdales to come. Moral: What looks like a government-securities money fund isn't necessarily all that the term conveys. ■

Decent exposure?

Below, the 15 largest money funds specializing in U.S. government securities and the percentage of their portfolios invested in repurchase agreements.

Fund	% repos	Average maturity portfolio (days)	Net assets (\$ mil)
AARP US Govt MMT	42%	43	\$4,580.9
Capital Preservation	—	28	2,093.7
Merrill Lynch Govt	26	39	2,035.7
Fund/Govt Investors	63	16	1,477.7
First Variable Rate	80	23	1,472.1
ML CMA Govt Secs	31	33	1,317.8
Capital Preserv II	100	3	1,171.9
Shearson Govt & Agencies	30	38	1,046.2
Dreyfus MM			
Instrmnt Govt	35	47	810.8
Govt Investors Trust	94	20	759.1
Cash Eq Govt Only	75	14	569.7
Vanguard MMT Fed	22	28	567.9
Sears US Govt MMT	26	27	434.8
Reserve Fund Govt	38	38	425.7
Fidelity US Govt Res	27	41	388.8

Source: Donoghue's Money Fund Report, 8/16/82

A delightful bonus: If interest rates continue to fall, \$10 billion could be chopped from next fiscal year's budget deficit.

Shhh, don't tell Congress

By Jerry Flint

THE BREAK IN INTEREST RATES could significantly reduce the Reagan Administration's spending projections for fiscal 1983, and the projected big deficit, too.

Paying interest—remember, the government lives on borrowed money and has a \$1 trillion debt—is the third-largest spending item in the budget, behind the military and Social Security. The combination of soaring interest rates and growing debt is costly. Back in 1972 the government paid \$21 billion in interest; for fiscal 1983, starting Oct. 1, the Office of

Management & Budget figured the interest bill would be \$111 billion.

But will it? The rule of thumb, says Doug Norwood, economist at OMB, is that a 1% interest rate drop—below OMB's own projections—beginning the first day of the new fiscal year and running the full year, would save \$3.2 billion. The earlier the rate drop, the more saved. Thus, the same 1% rate drop starting in mid-August saves \$3.5 billion in fiscal 1983. OMB uses six different Treasury maturities to make its 1983 interest cost estimate. For example, OMB had projected a rate of 10.7% on 91-day Treasury bills for 1983. If rates ran 1% below that

projection, say 9.7% from mid-August through the next fiscal year, and other Treasury borrowing rates were in line, too, the government would save \$3.5 billion. If rates dropped 3% for the year, the savings would be about \$10 billion.

That is a significant figure: The tax increase bill that President Reagan fought for added an estimated \$20 billion to 1983 revenues.

"It's good news for the budget types," says Norwood. Naturally enough, the folks at Treasury and OMB aren't throwing their hats in the air yet. Interest rates could rise again; even a drift down may be erratic. "There will be fluctuations," says Treasury Secretary Regan, who doesn't see a straight-down dive.

It also is possible that the deficit projection of \$115 billion for next fiscal year is too small. That means the government could pay lower interest rates but borrow more, wiping out some savings. A final, and ironic, possibility is that if savings of billions of dollars on interest payments appear likely, the Congress could be tempted to write fatter checks for welfare-type programs or the military. "Wait until the Pentagon finds out," says one government economist. "They've probably already spent it."

Despite all those ifs, the slump in interest rates is good news for deficit-haters, the best they have had in some time. ■

Congress bears some blame for the Penn Square collapse. After all, the bank was lending to drillers that Congress favored.

The deep gas disaster

By Carol E. Curtis

IT'S ONE OF THOSE SITUATIONS that can occur only when government regulation misfires. For years, politicians have been tinkering with natural gas policy—largely to keep fuel costs low for northeastern homeowners and

midwestern factories. In 1978, however, Congress balked at outright deregulation and went for a phased deregulation—the Natural Gas Policy Act—to spare some pain to the voters.

Back then everyone worried about supply shortages, instead of across-the-board deregulation. So, the law-

makers created a special drilling incentive. They exempted expensive "deep gas"—found largely in Oklahoma and the Gulf coast—from all price controls. Oil prices were headed up, so natural gas knew no limits. Wildcaters rushed to drill these costly wells, and pipelines rushed to sign top-dollar contracts for new reserves. Result: Now that oil prices are falling, "controlled" natural gas is fast becoming the nation's highest-priced fuel.

Look, for example, at what is happening at the Columbia Gas System, which pipes gas from the producing Southwest to Ohio, Pennsylvania, West Virginia and Kentucky. With its hefty reliance on expensive deep gas, Columbia is charging an average delivered price of \$4.45 per thousand cubic feet (mcf) to industry—the equivalent of fuel oil selling at \$26.70 a barrel. But many Columbia customers can now buy fuel oil for as little as \$22 a barrel. "The embarrassing thing," says William Gibeau, vice president of marketing at Columbia, "is that our price is escalating when the economy is in a

three-year pit."

Companies Columbia serves include seven of the ten largest industrial gas users in the Midwest. Some, like General Motors and Libbey-Owens-Ford, are lucky enough to be able to convert much of their consumption to oil. Others are less fortunate and simply cannot pay.

Consider the Weirton subsidiary of National Steel, Columbia's largest single customer. The company, in the process of being acquired by its employees, has already switched half of its gas-fired furnaces to oil. But it still burns 7.2 billion cubic feet of gas a year. For that gas, Weirton is paying \$4.67 per mcf, a rate equivalent to \$6 a barrel more than the price of fuel oil. For 1983 a 48% hike in natural gas rates is in the works. "We are going to Washington to tell them that the increase simply cannot be borne," says Malcolm Wilkinson, vice president of purchasing at Weirton.

Washington may well listen—especially when homeowners join the chorus of complaints about high gas prices. That could happen hours after this winter's first gas bills arrive in the mail. As industries switch from gas to oil, residential con-



Natural gas pipelines at Weirton Steel
Fuel oil looks like a bargain again.

sumers pay even higher prices to make up for lost revenues. So, in the Midwest, residential gas bills are expected to go up by as much as 50%.

Meanwhile, the marketplace is met-

ing out its own justice. When pipelines lined up their gas supplies, they typically signed tough take-or-pay contracts—at prices of up to \$10 per mcf. Now some companies are backing out. Michigan Wisconsin and Transco, for example, have told producers they will pay no more than \$5 to \$6. The implied threat: Try to sell your gas elsewhere in a glutted market.

All this is bad news for aggressive wildcatters who drilled deep gas wells spurred by the carrot of selective deregulation. It's no accident that a good many of the bad loans involved in the Penn Square Bank collapse were to deep gas drillers. The press is busy blaming sloppy bank lending for the situation. That's only part of the story; the Natural Gas Policy Act is at least equally to blame. So don't be surprised if Congress moves to change its deregulation program.

Many gas companies, meanwhile, are sitting with reserves that are considerably less profitable than they were only months ago. Misguided government policy may encourage industry to develop its high-cost production first, but supply and demand sets the price. ■

Why are we inviting the Japanese to share our technology in the aircraft market—our second-largest export earner?

Japanese roulette

By Howard Banks

AMERICA'S BIGGEST EXPORT earner outside of agriculture—commercial airliners and the big-fan jet engines that power them—is about to be infiltrated by the Japanese, and America will have only itself to blame. Boeing,

which has made more jet airliners than the rest of the industry worldwide put together, excluding the Russians, is talking collaboration with the Japanese. Faced with a proposed new airliner from European government-financed Airbus Industrie, and financially strained from the simulta-

neous introduction of the 757 and 767 models, Boeing cannot afford a third new project.

Boeing is not alone. United Technologies' Pratt & Whitney subsidiary, which for a time had a virtual monopoly over the world's civil jet-engine market, is talking about joining a consortium of three Japanese companies and Britain's jet-engine maker, Rolls-Royce. At stake is the airframe and engine for a projected class of medium-range 150-seat planes that the airlines say they need to replace gas-guzzling older 727s and DC 9s. The cost of developing new airliners has grown to the point where few companies can consider investing alone. A competing engine or airframe in any market segment guarantees that nobody will make any money from producing it, even the company that gets the most orders.

As Robert Carlson, executive vice president of United Technologies, so vividly puts it: Several competitors in any market can lead to "industrial self-immolation." Ironically, that's

just what might happen in the 150-seater market.

The best guesstimates are that it costs around \$1.5 billion to launch a new airframe today, followed by another \$1.5 billion to put it into full production. For an engine that is derived from an existing one the cost would be a "mere" \$750 million, while an all-new engine could cost twice that.

Enter the Japanese. They have the money and have decided to get into aerospace manufacture. It is one of the most lucrative engineering sectors and the Japanese have lots of displaced and unsackable shipbuilding workers to absorb.

Because it takes longer to develop a jet engine than the aircraft it powers, the engine talks are farthest advanced. Only three makers in the world are capable of designing a modern, large fuel-efficient engine: Pratt & Whitney; General Electric (which already has a collaboration deal with Snecma of France); and Britain's Rolls-Royce. The Japanese are willing, in effect, to pay to be taught how to join this exclusive club.

Rolls-Royce wanted to build a new engine for the 150-seat planes but could not afford to, having lost \$203 million net in the past three years. It had been assisting early Japanese efforts to design a modern engine that had worked on test, but with indifferent results. Outcome: a joint deal, to design an engine called the RJ 500, between state-owned Rolls and IHI, Mitsubishi and Kawasaki. Because the airlines kept changing their minds about the size of plane they needed and how modern an engine they wanted, something like \$400 million to \$450 million must already have been spent on the RJ 500, which is now an all-new engine.

Enter Pratt & Whitney, which has already spent almost \$1 billion over the past three years developing an engine called the PW2037 for Boeing's new 180-seat 757 airliner. So far, because of the general downturn in orders from the airlines, the engine has received only one major order, from Delta Air Lines. Earlier this year,

Robert Carlson proposed that Pratt should join the Rolls-Japanese consortium in an attempt to cash in on the 150-seat market.

The Japanese want Pratt in to "guarantee" access to the American market. So Rolls is having to back down on its opposition to changing the RJ 500 technology to include Pratt developments—and so spread the initial cost of the PW2037 over two projects—even though it will add considerably to the initial cost of the new engine.

But there are many unanswered questions: If the engine uses Pratt's American technology, how will the Defense Department react? Secretary Cap Weinberger is known to regard the Japanese as suspect when it comes to technological secrets. The earlier deal between GE and the French was tolerated because all the difficult bits are made only by GE and delivered to France already assembled. This one cannot be divided up so easily.

Given the attack on the Japanese for pinching IBM's knowhow and maybe 64k RAM chip technology, too, it was hardly surprising that the Japanese objected strongly last month when

the Justice Department asked the routine questions that are always asked when an American company proposes such a collaboration.

Dividing the "profits" is another sticky question. At the moment Rolls and Pratt seem likely to get equal shares of the cake, leaving the Japanese with a smaller stake but a larger bill. Some room will have to be left for other European companies—notably MTU of West Germany and Fiat of Italy, which are already subcontractors on Pratt's PW2037. This would aid access to their governments' funds as well as to continental European airline orders.

Rolls and Pratt attempted to get together before, over the engine that preceded Pratt's PW2037. They fell out when Rolls decided to go it alone with a rival version of its existing RB 211 engine. The same could happen again should Pratt decide it is in its best interest to modify its PW2037.

Final meetings were scheduled to take place in Munich by the end of August. An announcement—one way or the other—is planned for the Farnborough Air Show in early September. If Pratt's participation falls through,

the Rolls-Japanese collaboration would probably go ahead. Pratt would then scale down its PW2037 to a smaller size to suit the 150-seat market, working with MTU and Fiat. And General Electric and Snecma would continue to work quietly on variations of the engine they already have in production, which is called the CFM56.

So as things stand at present, everything is wrong with the race to build the engine for a 150-seat plane: It is folly to share crucial export-earning technology with the Japanese. Carlson says, however, that it is better to have a stake in all engine markets rather than to ignore some because of the high initial investment involved. If the deal goes through and there are two or three competing engines, no one will make any profits. And there is a very real question as to whether the spendthrift airlines really need this aircraft in the first place.

Back to the drawing boards, gentlemen! ■



Mechanic at IHI's Mizuho jet engine plant
"Industrial self-immolation."

Will cable TV bury the networks? No way, says consultant Paul Bortz. Do you know how much it costs to kill a dinosaur?

Why cable TV is a high-risk investment

By Steven Flax

CABLE TV HAS ALREADY SIGNED up 21 million subscribers, and one respected video analyst has called the networks "dinosaurs," with nothing so certain as their extinction. Yet while cable and independent TV combined at times grabbed 17% of the prime time market last season, it's often overlooked that the networks still have the rest.

At the same time, cable's primacy in the pay TV business is being attacked by a swarm of less capital-intensive competitors that broadcast their programming over the air: direct broadcast by satellite (DBS), subscription TV (STV), low power TV (LPTV) and others.

Fuzzy? Indeed. To get a little better reception, *FORBES* talked to Paul I. Bortz, managing partner of Browne, Bortz & Coddington, a Denver-based consulting firm. From the hordes of consultants, Paul Bortz emerges as possessor of the clearest and best-informed vision of the future of telecommunications. The author of the famous 1973 study on new technologies for the White House Office of Telecommunications Policy, Bortz went on to serve as Deputy Assistant Secretary of Commerce for communications and information in 1978 and 1979. He is widely regarded as the ranking communications authority, both by the industry and by Congress.

Will broadcast TV networks go the way of network radio or the large, general-interest magazines?

Bortz: I think neither analogy holds. The weakness in the analogies is that, in both radio and magazines, editorial costs—the cost of programming—are

relatively low, whereas the cost of good video programming is overwhelmingly large, often 90% of all costs. Because of that, you can't provide very narrow audiences with new [advertiser-supported] TV programming.



In today's mature network TV market you don't want to overreach for ratings, says Paul Bortz. With blackboard and chalk, Bortz diagrams the stages in network operation to show that attempting to win the Nielsen ratings every night, what Bortz calls "chasing the rainbow," will in fact cost a network too much. . . .

That will be news to a lot of the new programming services.

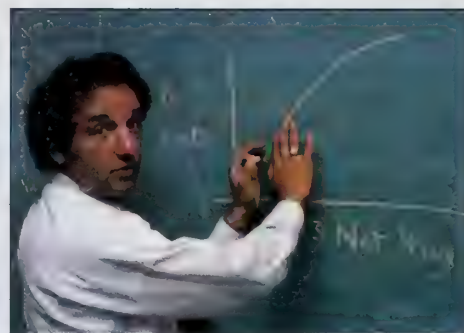
Bortz: Probably. Every failed programmer who becomes head of a new programming service is hailed as one more nail in the coffin of the existing broadcast structure. Not so. There are going to be spectacular failures. People haven't realized that you don't really have the option of putting together the editorial packages for a zillion different little audiences unless you can get significant revenues. You've either got to get extremely high costs per thousands from advertisers, five or ten times what broadcast television charges, or the consumer must pay a substantial part of the cost.

Take a look at a national network audience to see the importance of scale. Let's say that a so-so show has a 15 rating [*i.e.*, 15% of the households] on an 80 million-home base. So we have

12,000 thousand homes. At a cost-per-thousand of \$6, that yields \$72,000 for a 30-second commercial spot. So with low cost per thousand the business makes sense even against production costs of about \$600,000 an hour—\$10,000 a minute—for prime time.

Compare that to a wildly optimistic scenario for cable. Let's say you have such a good program that you are going to get 30 million homes. That's more than the number of cable homes today. Now, if you deliver really good demographics so that you get \$50 per thousand viewers (assuming a 1 rating—and most cable shows don't do a 1), that gets you \$15,000 for a 30-second spot. So six 30-second spots (I'm presuming fewer commercials for an upscale service) would give a total of \$90,000 an hour. That's less than one-seventh the cost of good video programming today, and about 10 times what any existing cable gets.

The problem is this: The very nature of specialized programming means that ratings are going to be lower.



Of course, you can reduce programming costs by running shows like *Dragnet* repeatedly. That's what you find on a lot of cable. But how is that going to shatter the networks? It will shrink network audiences (and we've already seen the bulk of that), but it won't fragment them. The revenues won't be enough to develop programming that will draw a large audience. Furthermore, most of the added viewing in cable is going to go to pay TV services, which have few ads, so there is little threat of siphoning advertisers away from the networks. And remember, in our optimistic scenario, we've been talking about a really good program service. You can't take anybody's half-baked program ideas and apply these numbers to them.

So the networks won't fragment. But if their audiences do shrink, what does that

mean for their revenues?

Bortz: Just because audiences shrink doesn't mean revenues do. All of the competitors, including cable, are going to exert a downward pressure. They'll slow the rate of growth of network revenues, not reverse it. The networks' inventory of good commercials is pretty much sold out, and they have got advertisers that they haven't tapped yet. Anyway, the networks can raise prices by a certain percentage, and their demand will probably decrease by a lesser percentage, compensating for any falloff. The growth in the number of households will offset some of that shrinkage, too.

Meanwhile, what about their escalating programming costs?

Bortz: Obviously a network has got to do something better than the other networks to get better than even share. What happens is that the costs of the programming for the additional share points start to go up tremendously. But in an era in which the rate of revenue growth is slowing, you

er, which is a very good number today. Now he could add a fifth service, and there will be people who'll take it. But if he doesn't budge his average monthly sale above \$30, if subscribers just shift among services, then what is it worth to him to incur even the most marginal incremental cost? What pay services will run into is that the cable operator is going to be very protective of his total revenue. If he's offered an additional service, he's going to ask himself, "Am I going to cannibalize any of my existing revenues?" In fact, even in systems carrying many pay services, revenues peaked when subscribers bought, on average, three services.

What about all the interactive stuff, the videotex and the security services?

Bortz: There will be revenue there. But will there be profit margin? The very real danger exists that, as cable operators get into some of these new services, they will be tempting subscribers to buy lower margined product at the expense of their higher margined

ators from large cities who have come to us and said that they couldn't get 20% penetration—I ought to be able to sell 42%. On the other hand, if I miss by 20% on my operating costs, which I don't spread out over a number of years, my breakeven goes from 36% [of penetration] to 58%.

Cable is also beginning to face increasingly stiff multichannel competition that broadcasts over the air.

Bortz: The biggest advantage cable has is its tremendous channel capacity. The diversity of services it can offer makes it likely that it will have the set of channels that will appeal to any given household. So cable will have the dominant share of premium television subscribers. But there are limits to cable's value.

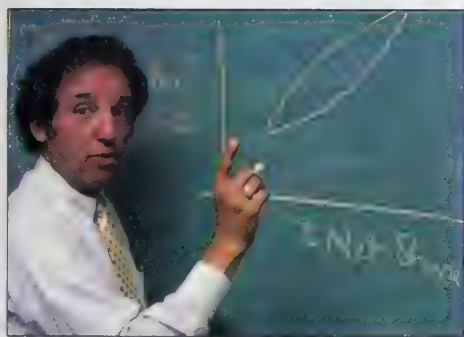
We have found that in addition to the basic complement of broadcast signals—the three networks, the independents and the Public Broadcasting System—the demand for additional pay services was fairly limited. Forty channels was not nearly ten times better than four. In most markets, at five pay channels you are up around 90% of the ultimate possible value to a subscriber.

So where would you look to invest and what would you avoid?

Bortz: The large urban franchises are the ones where there is the greatest chance for disaster. A lot of it has to do with maintaining my operating margin. If I've made promises of services that will come right out of operating income, such as staffing and running access studios, and I've got large pockets of unemployed people and people who

aren't going to pay their bills, and a lot of churn because they are fairly transient people, then I'm likely going to be on the downside.

The best cable investments are the ones that follow a suburban strategy, where I can pick my demographics: larger, younger or more affluent households. Also, they are usually the systems where the franchise demands of the municipality weren't that great, particularly as they affect operating costs. Those are systems that will buy high-margined services. In a suburban system I could be at 50% penetration and at average monthly subscriber revenues of over \$30. So a wealthy suburb could justify the upside of cable's potential and a central city the downside. What we're going to find is an industry where, as Irving Kahn said a few years ago, "Not all cable subscribers are created equal." ■



The top curve shows revenues as audience share increases; the lower curve the escalation of costs. Their convergence means that as one network tries to dominate, costs skyrocket, reducing net income. Better to operate where the spread between revenues and costs is greatest (shaded in right photo).

can't overreach that way. A network now really shouldn't want to win the Nielsen ratings seven nights a week, because it will cost it too much. From now on it will be in the interests of the networks—as well as the stockholders—to function so that income is maximized, not ratings. Broadcasting is now a mature industry, and this is the game they are going to have to play.

You said earlier that most of the added viewing in cable will be for the pay services rather than advertiser-supported ones.

Bortz: Any cable subscriber has a limit on what he will spend for video products. The demand for the n th + 1 pay channel is less than the demand for the n th one. Let's say that a cable operator is carrying four pay services, he's selling an average of two per subscriber and he's achieving average revenues per month of \$30 per subscri-

product. Some smart operators will never introduce some of these services, or will go for only a tiny share of the market by pricing the services so high that margins will be maintained.

A lot of large companies have recently bought cable systems at prices equivalent to 9 or 10 times the operating cash flow, persuaded that the growth will be there.

Bortz: A lot of them made their decisions based on very optimistic scenarios. At the prices they paid, some of them obviously made a high-risk investment because these systems are extremely sensitive to operating costs. For example, in a nice suburban system, if I missed my estimate of capital costs by 20%, my breakeven went from 36% of households to 42%. Assuming I can reasonably expect to sell 36% of households—a big presumption, since there have been oper-

The voters said yes to a stronger national defense, but may be unwilling to pay for it.

Guns or butter?

By Jerry Flint

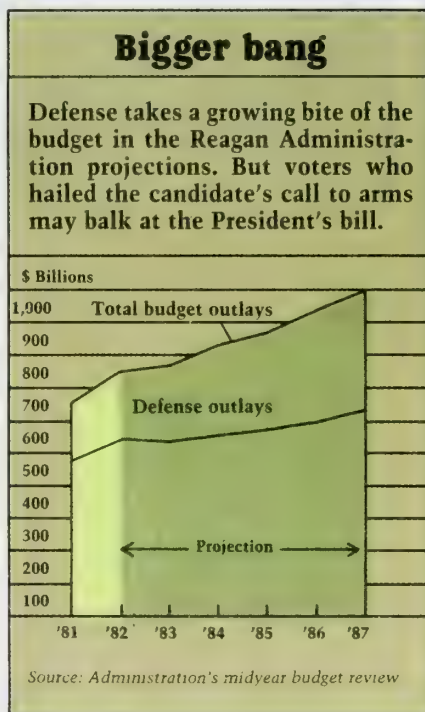
THE GREAT DEBATE on defense spending begins next year. The budget projections make it inevitable. In fiscal 1981 defense accounted for \$160 billion, or 24% of the nation's budget spending. In the budget starting Oct. 1, President Reagan and Congress expect to spend about \$220 billion, or 29%. In the 1984 budget, defense will be pegged at \$250 billion, or 31% of the budget.

To keep the deficit down—it will be enormous anyway—there will be more snips at programs like food stamps and Medicare, and probably Social Security, too. But there will be loud demands to cut defense. Prominent congressmen already are suggesting a cut of \$10 billion from the 1983 defense budget. Says Defense Secretary Caspar Weinberger, "In order to cut \$10 billion in outlays, which is what is being talked about, you need to cut about \$40 billion to \$45 billion in authority, which means that you absolutely cripple all of the programs of rearmament. . . which we desperately need after a decade of neglect."

Weinberger and other defenders of increased military spending make the point that the Reagan Administration's goal is relatively modest—to push defense spending to 7%, from only 5%, of gross national product, compared with the 9% of GNP reached in the 1950s under Eisenhower or during the late 1960s' height of the Vietnam War. But the 1980s are not the 1950s. The voters today like guns but prefer butter. We are in for "a lengthy and very difficult guns-or-butter debate," says R. James Woolsey, who was Under Secretary of the Navy under President Carter.

Woolsey, an articulate student of

the military, is worried. Among the opponents of defense, he now lists a large part of the business community that fears growing government deficits. On defense issues, quips Woolsey, "the President is better off with the AFL-CIO than the Business Roundtable." For unions defense spells jobs. For businessmen it spells high interest rates.



The coming defense debate will be far more serious than the skirmishes the Administration has won so far over B-1 bombers, big carriers, MX missiles and the nuclear freeze. Hanging over the debate is the issue of a return to the draft. Here William J. Taylor Jr. of Georgetown University's Center for Strategic Studies, a retired military officer, sees bleak choices:

"If we don't come out of the recession, we won't support military spending. If we do come out, the voluntary force could fall flat on its face," he says.

Earl C. Ravenal, a former Pentagon systems analyst and now professor of international relations at Georgetown's foreign service school, worries about easy slogans: "I do not find it is dim-witted generals or grasping defense contractors—this mythology that is being created for us—that are putting up the prices of our forces and our weapons." Determined enemies and the requisites of modern combat are pushing up the price.

Nor does Ravenal think we can get away with the old game of blaming waste. "The sad fact is that even if we could identify the waste, it is distributed so randomly over the various categories of the defense budget that it can hardly be estimated," he says. "If you are serious about retaining the defense programs, you must plan to fund the waste along with the substance or you will end up cutting the substance along with the waste."

Ravenal, who favors cutting military spending, is intellectually honest enough to recognize that there is only one way to do it—by the U.S. pulling back on its ideas of building forces capable of fighting anywhere. "The full cost of deploying one aircraft carrier task force, whether it is nuclear or oil powered," he says, "will be over \$11 billion a year. Our present strategy requires us to keep four or five of these aircraft carrier task forces forward."

Also, American manpower is too expensive to use lavishly. The other guy has more planes and tanks and men; ours make it up with technology. But dreams of cheaper, simpler weapons cut no ice with Ravenal. Says he: "An Army division costs nearly \$4 billion a year to keep, and we have 16 of them. A wing of tactical aircraft is \$1.5 billion a year, whether or not we have rugged or fragile planes."

Former Navy Under Secretary Woolsey has another worry: that Congress may seek the easy route and cut back on training or ammunition stocks rather than weapon systems that promise jobs at home.

President Reagan continues to say that he has no intention of curbing his military spending plans. But he has changed his mind before—notably about new taxes. Americans responded when Candidate Reagan called for a stronger America. But they may back off when President Reagan hands them the bill. ■



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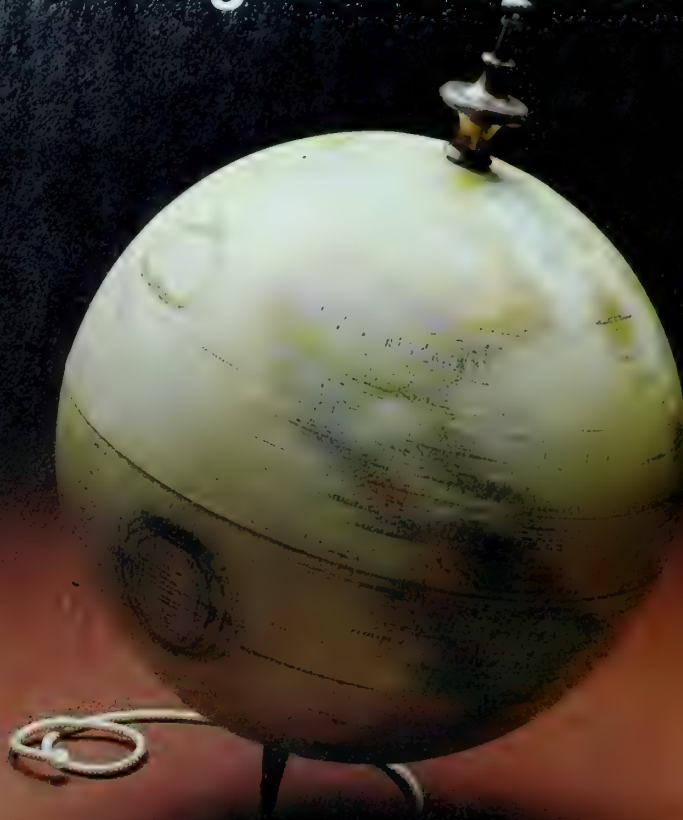
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The Apache helicopter is an expensive, electronics-filled superweapon, but it can stop the Russian tank hordes.

What price superiority?

By Allan Dodds Frank

THE NEW APACHE AH 64 helicopter that the Army is buying from Hughes Helicopters represents everything that is right—and may be wrong—with the U.S. war machine.

The Apache, says an Army expert, "may be more revolutionary than the Germans' use of tanks and dive-bombers in the Blitzkrieg." It can dash at 225 miles an hour, fire missiles, rockets and machine gun-like cannon, climb fully loaded at 450 feet a minute, cruise for more than 2½ hours and fight day or night, rain or shine. The Army believes this airborne tank can stop the Soviet tank breakthrough and keep fighting short of nuclear weapons.

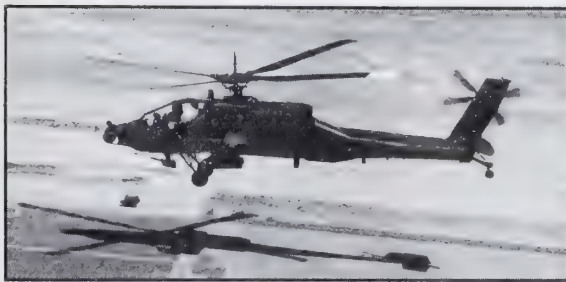
Its development by Hughes Helicopters Inc.—a part of Howard Hughes' old empire—gives the U.S. another strong helicopter builder, along with Bell-Textron and the Sikorsky division of United Technologies. "We're building a real good industrial base," says President Jack Real, referring to the hundreds of engineers Hughes has hired and plans for civilian versions of Apache.

That is what is right. What may be wrong is that the Apache raises the old question: What price superiority?

The Apache is in a long line of over-run-plagued, expensive weapons: Its price in 1972 was projected at \$3 million. Now, with R&D costs, training and spares, it is \$14.3 million—a \$7.4 billion program based on the 515 helicopters Hughes hopes to sell to the Army. In addition there will be 120 Apaches for the Marines and hundreds more to NATO and other allies.

Critics question not only the Apache's price but the Army's whole

helicopter-based strategy. Tanks can be stopped with cheap, ground-fired missiles, they say, or Air Force attack planes, such as Fairchild's A-10 (\$19 million per copy this year). The Army is suspected of wanting helicopters because Army staff distrusts ground support from the Air Force. Critics point to helicopters' vulnerability in Vietnam and ask what use Apache will be against anti-aircraft fire, heli-



The Apache superweapon at Yuma Proving Ground
The question on price is: compared to what?

copter gunships and fighters.

But the Apache—commissioned by the Army in 1972 following some bitter lessons in Vietnam—is different. Its armor is impervious to Soviet 12.7mm machine guns and most 23mm cannon hits. It can fly just above the ground, duck behind a tree and pop up 100 feet to avoid heat-seeking missiles.

On offense, the Apache is straight out of *Star Wars*. It can center a tank or other target in the laser range finder's video screen and, Pac-Man style, hit it with a Hellfire 100-pound missile or one of its 76 2.75-inch rockets.

There's a 30mm Hughes Chain Gun beneath the Apache's nose. The sight and tracking system are hooked to a helmet-mounted monocular that swivels the gun to follow the shooter's eye. At night, a special vision system works through the monocular,

too. No looking at the instrument panel, even for flight data.

"There is no night in the Apache," says Brigadier General Ellis Parker, Army Aviation Officer. The Apache carries an all-new thermal image system using an object's own heat to produce computerized pictures much like television. With it, even in pitch darkness, the Apache can adhere to the contours of the terrain and keep fighting. High-powered magnifications—up to 122 power in daylight and 34 power at night—make distinguishing their tanks from ours easy.

But those capabilities are scarcely the sole reason Apache costs \$14.3 million. First there is politics: The Army and its contractor play a game of shifting estimates with Congress; Congress understates inflation during the weapon's development, then tacks on the real inflation later. Five years of the difference between projected and real inflation, added to the Apache's cost in 1981, contributed \$760 million to the price tag. The company had trouble with the Army, which ordered thousands of changes. The Army had trouble with Hughes executives—mostly holdovers from Howard's day—and ordered the management replaced in 1979. Jack Real came in and now 40 Hughes executives stand to earn bonuses for keeping the weapon on schedule.

Now, with 11 Apaches authorized for production and another 48 approved for 1983 startup, the Army and Hughes claim that penny-pinching has kept the price to \$14.3 million per chopper. Of that, hardware itself is \$9.1 million and may

be down to near \$7 million when for sale to preferred allies like the West Germans.

Such price movements trouble the public, who don't understand them and who believe in any case that a helicopter should be cheap.

Yet the Apache has done well in night and adverse-weather flying, weapons firing and crash worthiness tests. The proper question to ask about its price is: compared to what? The F-16 fighter costs \$16.2 million a copy, but nobody questions that after its performance over Lebanon in June. The fact is the Soviet Union has 45,000 tanks (compared with 11,000 U.S. tanks) and the newest U.S. tank, the M-1, is already costing \$2.8 million and is mired in development problems. Good weapons don't come cheap, but the cost of less-than-superior weapons can be unbearable. ■

American Brands has been using its tobacco division to nourish its diversification. Now it's time to feed the bovine.

Cash cow into prize steer?

By Richard Greene

EDWARD WHITTEMORE, chief executive of \$6.5 billion (sales) American Brands, reels off the kinds of businesses his company is in: "Cigarettes, liquor, hand cream, biscuits." A mishmash? No, there's a nexus. "Almost all our products can be put in a box or a bottle," he says. "Properly labeled and put on a shelf in a store, they'll sell."

Back in the days when then-President George Washington Hill was sending Lucky Strike Green to war, American Brands was a crack marketing outfit with a commanding 36% of the American cigarette market. But since World War II, American Brands has allowed its market share to dribble down to about 10%.

For years a cash cow, American's domestic tobacco division financed far-ranging diversification, which now provides 61% of operating income. You can wonder why American lost out in cigarettes. But you can scarcely fault its overall strategy. Last year American's return on equity was 20.3%, narrowly topping R.J. Reynolds' with an excellent return on equity of 20% and almost catching Philip Morris' 21.9%. The year before, American outclassed both larger rivals with a return on equity of almost 24%. While never attracting the attention of its more flamboyant rival, Philip Morris, American treated its stockholders exceedingly well. In the sog-

gy stock market of the past decade AMB rose nearly 50%; common dividends increased from \$1.15 a share to \$3.50, while common share earnings went from \$2.26 to \$6.68. It was a showing that few major U.S. corporations could match.

This successful corporate strategy was devised by Robert K. Heimann, now retired, who shone in the acquisition game. Heimann, a onetime man-



*American Brands' Edward Whittemore
Reach for a Lucky instead of an acquisition.*

aging editor of *FORBES*, who headed the company for eight years through 1980 and served as its president for three years before that, played a key role in bringing the company such winners as James B. Beam Distilling, Swingline, Master Lock, Acushnet, Jergens, Franklin Life Insurance and Britain's Gallaher Limited.

Some of the product lines seemed like dogs when they were acquired, but almost all have worked out well in the long run. The reason is that American didn't just acquire-'em-and-forget-'em. It applied to each new product line a highly developed operating philosophy based on fairly simple formulas. For example, what do you do in a recession, when consumer products sit around store shelves?

Whittemore: "We bring out new and improved products. Last year we had 183 line extensions on good products that we wanted to expand, plus 268 new products. Nearly one-fifth of all our sales came from products introduced in the last five years. New things are selling."

Some examples: Pinnacle golf balls from the firm's Acushnet golf ball subsidiary that promise more yards to the swing; Kamora, a Mexican coffee liqueur from James Beam for the rapidly growing imported specialty liquor market; Chipples, a potato chip snack from Sunshine Biscuits; plus a line of microcomputers and software that will be distributed through Wilson Jones' office supplies dealer network. The list goes on and on.

To American Brands marketing men there's little difference among golf balls, potato chips and face cream. The new executive vice president of American Tobacco, Thomas Hayes, was formerly the president of Jergens. And he doesn't even smoke.

Whittemore himself is not a tobacco man. He originally came from Wilson Jones, the office supplies firm. A copy of a patent he holds on nylon ring binders is proudly displayed in his office. A logical conclusion would be that American Brands is in for more of the same: more diversification, less tobacco. That conclusion would be dead wrong. Whittemore seems determined to make his own mark on the company and the way he has chosen, perhaps to differentiate himself from

No Contest.



Novelist John Irving photographed by Annie Leibovitz

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Look into SmithKline Beckman. And look into the future.

Technologies

Heimann, is to try reviving cigarettes.

The only real success the company has had in the last two decades has been Carlton, an ultra-low-tar cigarette that pioneered that market in the early Sixties. But ultra-low-tars are not growing, and the middle-range low-tars are the source of 50% of market sales.

So Ed Whittemore intends to reach back into the firm's history and dredge up a now-dormant brand that was once the biggest-selling cigarette in the land—Lucky Strike.

For anyone over 35, the name conjures all sorts of images: "It's toasted," the package's legend; "Reach for a Lucky instead of a sweet"; the years when the brand sponsored *Hill Parade* on both radio and television; the war years, when Lucky went over "The Hump," as cigarette marketers then called American's main competitor, Camels; and, of course, LS/MFT—Lucky Strike Means Fine Tobacco.

These images haven't faded even from younger minds. When American tested the Lucky Strike name on people under 35, a surprising 97% knew it, even though the brand now has only 0.9% of the market. After all, their fathers smoked Luckies. Or their uncles.

But Luckies have been high-tar and filterless, and filterless cigarettes appeal to only a small segment of diehards. Realizing that there was little chance of getting any new smokers for the old Luckies, American allowed advertising per pack to shrink to a minuscule 0.04 cents, compared with 0.74 cents per pack for Marlboro, according to Lehman Brothers' John C. Maxwell.

Now, however, inspired by Reynolds' great success with a low-tar filter Camel that now has 2.5% of the market in addition to filterless Camel's 2.3%, Whittemore is ready to push his new filtered, low-tar Luckies. The new Luckies are aimed at the big 21-to-35 market. Vending machines are a key element here because that's where the bulk of this market buys cigarettes. How to get the vendors to start carrying Luckies? The industry calls the answer "subsidies" or "inducements." These are cash giveaways that reward vendors for reserving column space for your new product.

In the past, American has been very stingy here. Says Norman Borkan, senior vice president of AAV Co., an Ohio vendor: "Reynolds is the most

aggressive and pays the most, and Philip Morris has to be second."

Now, however, American is pulling out all the stops with its new Luckies. In the Boston area, for example, if a vendor adds a new brand he gets \$4 per machine, per year, for each one

the new Luckies with enough other American brands, he can pick up another \$4 a year per machine.

That adds up to something like \$25 a year per machine. Trade talk suggests that American is offering even more in other areas—as much as \$35 per machine in Connecticut, for example. Multiply that by a couple of thousand machines for a large vendor, and you begin to see why this is an effective inducement.

This time, American isn't selling Luckies as the better-tasting cigarette or Luckies as the safer cigarette. Instead, appropriate to today's age of hype, it is selling an image.

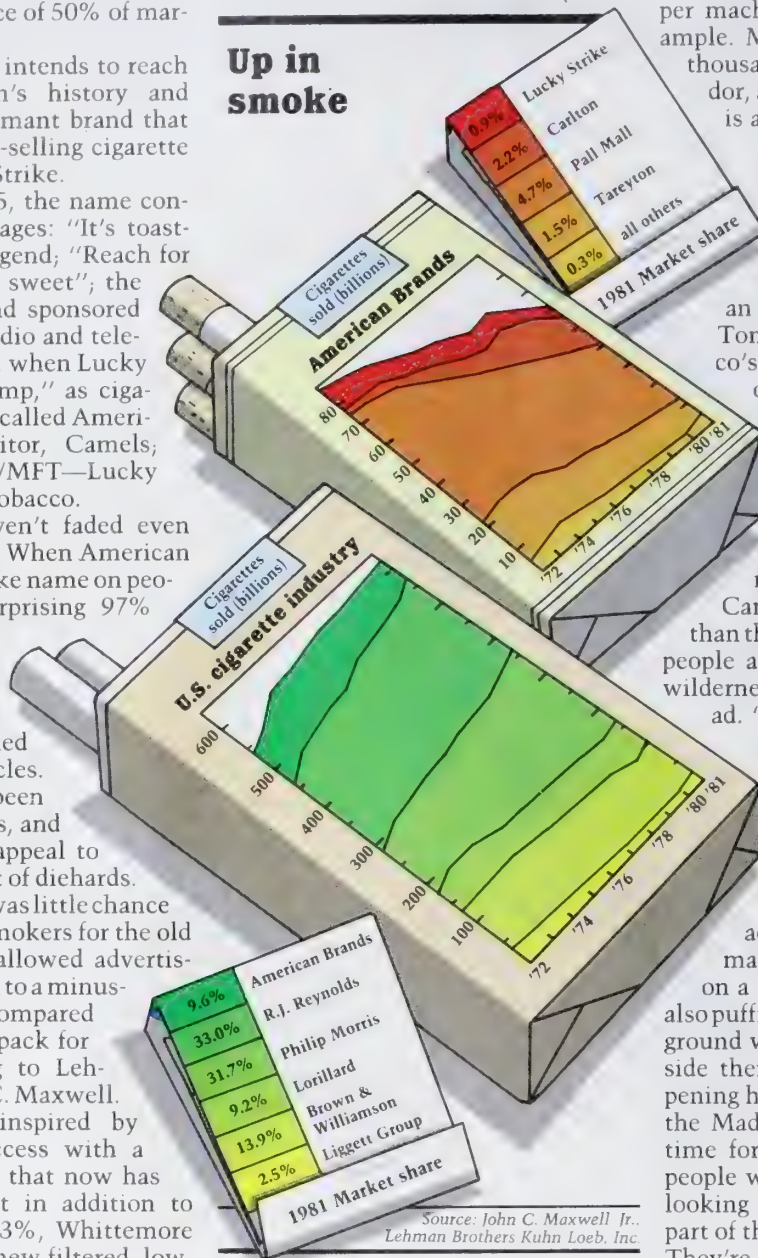
Tom Hayes, American Tobacco's advertising chief, spreads out some competitors' advertisements on his desk. "This one, for Marlboro, is pretty straightforward. It's Marlboro country. The man and the wilderness. Then Camel: It's sort of a modern-day Marlboro, but the Camel guy looks even tougher than the Marlboro guy. Both of these people are sort of loners, out in the wilderness." He points to a Winston ad. "Now, they typically show a group of construction workers. And they say, 'Nobody does it better.' A lot of double meaning there."

"We've tried to be different from any of these brands in Lucky Strike." His advertisement shows a young man in the foreground, puffing on a Lucky while four other men, also puffing on Luckies, sit in the background with musical instruments beside them. "Something good is happening here," says Hayes, getting into the Madison Avenue spirit. "So, it's time for Lucky Strike. We've taken people who are young and confident-looking and they're leaders. They're part of the group. But they're up front. They're confident and they're doing things." Smoke your way to self-confidence, have a Lucky.

Within a few weeks Luckies will be available in about 33% of the nation, and Whittemore claims that results to date are good. If Luckies succeed, there's little doubt that Whittemore will try the same trick with a new Pall Mall, which now has about 5% of the market with its unfiltered lines.

The big campaign for Lucky Strike features the phrase "Lucky Strikes again—the moment is right for it." So, look out, Philip Morris! Look out, RJR! ■

Up in smoke



American Brands has not fared well over the last decade in cigarettes. Only Liggett Group has lost more market share. Ultra-low-tar Carlton has been American's only growing brand.

placed; free cartons of Luckies; free cartons of Pall Mall Red (American's largest-selling single brand) after placement and a \$1 allowance for attaching a special sticker to the machine, with another \$2 for putting a new label on some months later. What's more, if the vendor combines

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It takes management to make, or break, a company, even one as rich in assets as Louisiana Land used to be.

Lost horizons

By Toni Mack

THE OIL STOCKS ARE BEATEN low, and one day soon your broker may phone to offer you an asset play. Look hard before you leap. A company may have stellar assets and the best of prospects and still crumble like stale cake if management is lacking.

Consider Louisiana Land & Exploration. In 1972 the New Orleans-based independent oil company was flush with reserves from a handsome discovery two years before, and that was in addition to the 600,000 petroliferous acres the company owned outright—not merely by mineral lease—in southern Louisiana. This was *before* OPEC's huge 1973-74 increase in oil prices. A shareholder could scarcely go wrong buying into such assets. But Louisiana Land has gone wrong.

In the last decade its common stock has fallen from around 50 to a recent 21, though Standard & Poor's Crude Producers Index has risen 10%. Its earnings have doubled, its revenues have swollen, to \$1.3 billion in 1981, but the company's prospects are bleak. Its once-touted assets have so waned that oil analyst John Olson of Drexel Burnham Lambert calculates reserve life—how long reserves will last at current production rates—at 3.8 years for oil and 4.5 years for gas, dismal compared with the 9 years' average for domestic producers.

What happened to the assets? They were wasted in the process of succeeding managements' trying to turn Louisiana Land into a full-fledged operating company. Until the early 1960s it was mainly a royalty company, reaping as much as 10 million barrels of oil a year—some from taking a small part in others' prospects, but mostly

from production Texaco and others found on its 600,000 acres. LLE paid most of the income over to shareholders. But when President Ford Graham, a blustery, cigar-chomping oilman, saw that the original oil deposits—and the flow of royalties—would one day ebb, he decided to make Louisiana Land an exploration company.

A good idea in principle, but poorly executed by Graham and John Phillips, who succeeded him as chief executive in 1972. Successful oil explo-

ration takes a certain amount of luck, of course, but it also takes perseverance. "You have to fight with the barrel you produce today to find the barrel you'll produce next year," is how analyst Kenneth Meyer of Josephthal & Co. puts it. Louisiana Land never kept up the fight to make exploration funds sufficient to the cause. In the mid-1970s, for example, Phillips held exploration funds almost steady, though oilfield costs jumped 62% in the same period.

Phillips, and Graham before him, were interested in other schemes. They invested oil earnings in, among other things, land reclamation; a resort on Molokai, a Hawaiian island known mainly for its leper colony; and the \$51 million acquisition in 1977 of Copper Range, a company so bad that some analysts wondered whether it was acquired to make Louisiana Land unattractive as a takeover candidate. While spending \$84 million more on an electrolytic refinery, Phillips has been considering closing the copper mine.

Meanwhile the money that was put into the ground never multiplied. True, there was the 1970 discovery of a 720-million-barrel field that still provides much of Louisiana Land's oil production. But it was more to partner



John Phillips, chairman of Louisiana Land & Exploration
A company that could scarcely have gone wrong—but did.

Exxon's credit, and it left Phillips, an accountant by training, with an expensive taste for high-potential, high-risk prospects. One instance: Louisiana Land took 47% of a prospect in the Deep Cotton Valley formation, a chancy Louisiana-Mississippi play. Phillips spent around \$30 million on six wells before giving up.

One prospect has turned out better than the rest: In 1976 Phillips bought 12.6% of the South Brae field in the North Sea. Starting next year, that field will add 11,000 barrels of oil a day to Louisiana Land's current 43,500 barrels. But considering the company's \$250 million share of development expenses, over and above what was spent on exploration, and the length of time it has been spending money on the play, the South Brae field's return will be no bonanza.

Last year Louisiana Land found

enough gas and almost enough oil to replace the assets pumped from the ground. But it cost \$556 million in exploration and development expenditures and a near-tripling in long-term debt, to \$358 million. There's little hope of great new finds this year.

One acquisition was so bad some analysts wondered if it was designed to make Louisiana Land unattractive as a takeover candidate.

The company is cash-short, and Phillips is cutting the exploration budget.

The 59-year-old Phillips, who drew \$589,000 in salary and benefits last year, is not eloquent on the subject of the company's problems, beyond observing that, "We've not been satis-

fied with our exploration efforts." His solution is to appoint a new head for the exploration department and reorganize exploration to put decision-making closer to the field.

With Dallas' Hunt interests holding 12% of the stock and Pioneer Corp. owning 7%, LLE in recent years has been mentioned often as a takeover candidate—the attraction being its 4 million exploration acres. But oil lease acreage is not the valuable commodity it once was, and LLE's current earning power is unlikely to bedazzle suitors. Earnings will likely sink to about \$2 per share in 1982, from \$4.74 two years ago; three of Phillips' top six executives have left so far this year.

Louisiana Land sold for decades at 20 to 30 times earnings—the market giving it a premium for its assets. It might more reasonably have sold with a discount for its management. ■

Q. Where in the world can you find the most creative solutions to international risks?

A. Rollins Burdick Hunter.

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HUNTER**

Taking Risk Out Of Risk Management
Worldwide

Farm House Foods has climbed to dizzying heights. Ever hear of acrophobia?

Don't look down!

By Richard Greene

WE COME UP WITH some of the wildest, craziest ideas," laughs Sydney B. Lilly, the voluble executive vice president of \$1.5 billion (sales) Farm House Foods Corp. "But we also come up with some super ideas."

Trouble is, the top brass at Farm House Foods sometimes seems to have trouble distinguishing between the crazy ideas and the super ones. Clearly, the Milwaukee-based wholesale foods outfit is obsessed with the image of growth. Largely on the strength of acquisitions—over 30 in the last 12 years alone—the company cracked the \$1 billion-sales mark in 1981. It heralded the event with a golden banner on its annual report bearing the words "\$1 billion plus" in 16 languages (it's "mahigit na isang bilyon" in Tagalog).

But translating what's behind that golden cover isn't quite so easy. Much of what glitters certainly isn't gold. For example, the company seems to be headed on a steadily upward earnings path: 1980 earnings of \$2.1 million, 1981 earnings of \$3.8 million and 1982 earnings of \$3.93 million.

Now take a closer look. In fiscal year 1982 ending April, the company acquired a fast-growing ceiling fan company, CasaBlanca Fan, formerly owned by southern California's flamboyant Burton Burton. CasaBlanca Fan showed net earnings of \$3.8 million in its 1981 pro forma statement. Assuming that the fan company con-

tributed at least that much to the Farm House income statement in its different fiscal year, the parent company without CasaBlanca actually earned next to nothing.

Read along a little further and you discover that Farm House Foods also underwent a LIFO liquidation last year, which added another \$787,000 to its "profits." But a company gets



Farm House Chairman Richard Fisher
"Mahigit na isang bilyon" in Tagalog.

that kind of income boost only when inventories shrink, eating into the so-called LIFO layer, as old low-cost stock is sold at higher current prices. Subtract that one-time occurrence and the company was in the red in the year just ended, without CasaBlanca Fan.

What's wrong with the wholesale food operations? Well, times are hard in Farm House Foods' major markets, north central states like Michigan, Illinois and Minnesota. In addition, in a thin-margin business that turns over its inventory once a month, a slowing of the inflation

rate is painful. Deflation is ruinous.

To make matters worse, some assets of Farm House Foods' subsidiaries had to be written off. In fiscal 1982 the company got rid of dry and frozen food warehouses and some retail food stores.

The balance sheet of Farm House Foods is even more worrying. There's \$116 million in long-term debt against only \$26 million in stockholders' equity plus another \$20 million in minority interests. Chairman Richard Fisher says that doesn't bother him. "Most of that is long-term, fixed-interest debt," he says. "The rates are quite reasonable, so it doesn't affect cash flow. In addition, we move very quickly to correct problems. In every acquisition, we spend more time looking at the downside risk than at the upside potential." In the CasaBlanca acquisition, for example, the company used only \$5 million of its own debt to finance the \$32 million price. The remaining \$27 million was loaned to CasaBlanca by Manufacturers Hanover. Farm House isn't liable for that \$27 million, Fisher explains—CasaBlanca is.

Of course, it wouldn't be so easy for Farm House to walk away from a loan. That can give you a bad reputation among bankers—and Farm House needs the bankers.

So far the company hasn't missed any interest payments. Quite a feat when you consider that this year operations threw off only \$12 million in working capital. Still, the company spent \$7 million for long-term debt payments, another \$5.7 million for lease obligations and \$12 million in additions to property and equipment. But Farm House's Treasurer Roy D. Terracina is quick to point

out that there's always the backstop of the firm's highly liquid inventories.

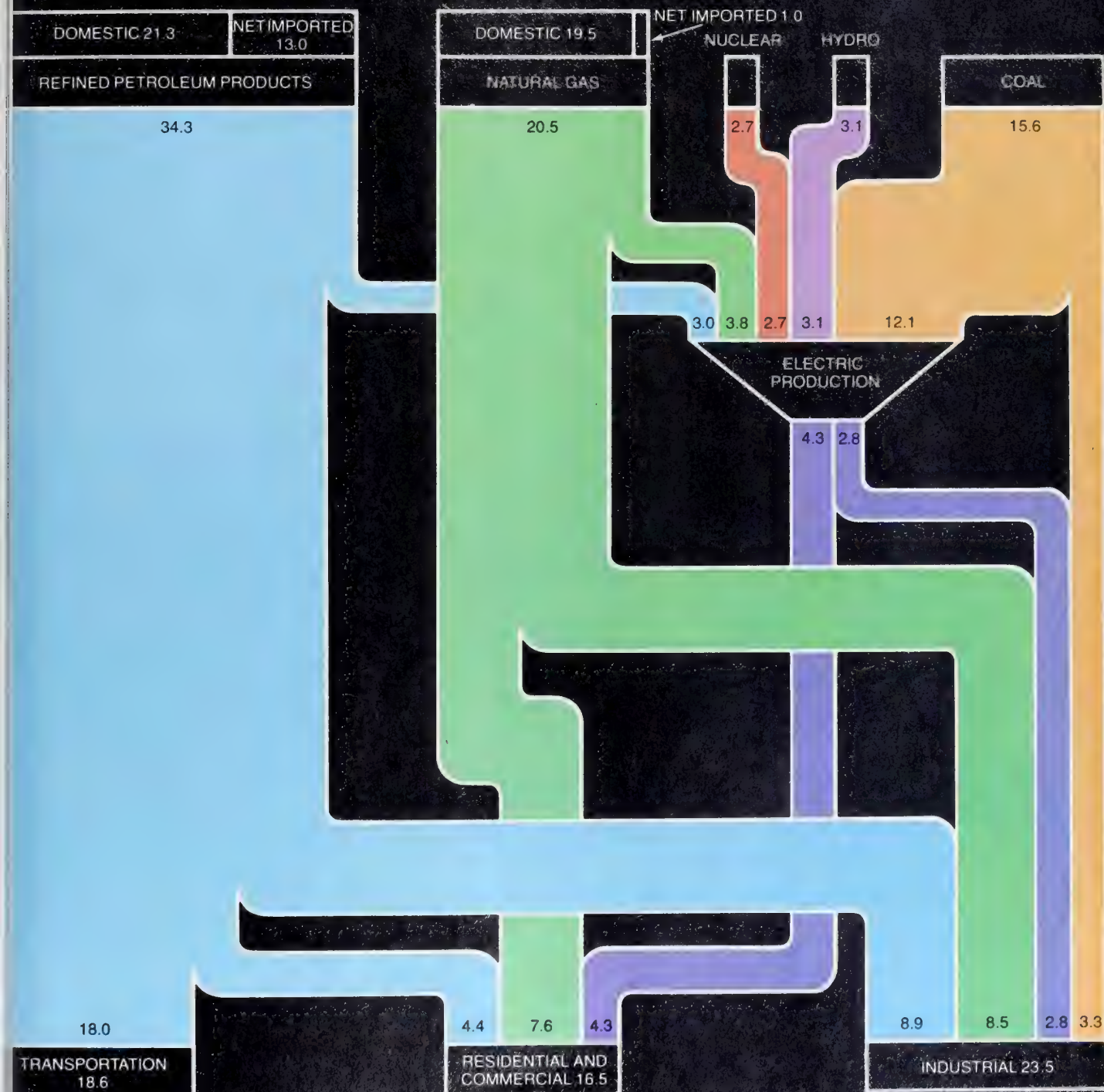
Meanwhile, the company remains on the acquisition trail. Last year it accumulated about \$15 million in cash by selling off some old properties and is ready to spend the money—not to pay off debt, but to pick up more companies. "The prices of acquisitions are a lot less than they were in the 1970s, when you paid 10, 12, 15 times earnings," says Lilly. "You can buy them now at 6 to 8 times earnings, which are bargains. We are ready to go forward."

That's life on the fast track. ■

energy

The Flow of Energy in the U.S., 1980
(In 10^{15} BTUs)

TOTAL ENERGY INPUT = 76.2 QUADS



TOTAL END-USE CONSUMPTION = 58.6 QUADS

A Forbes Special Advertising Supplement

energy

The Energy Economy: What Are the Real Issues For the 1990s?

By: Milton F. Heller, Jr., Director, and
the Energy Services Staff of Cresap,
McCormick and Paget Inc.

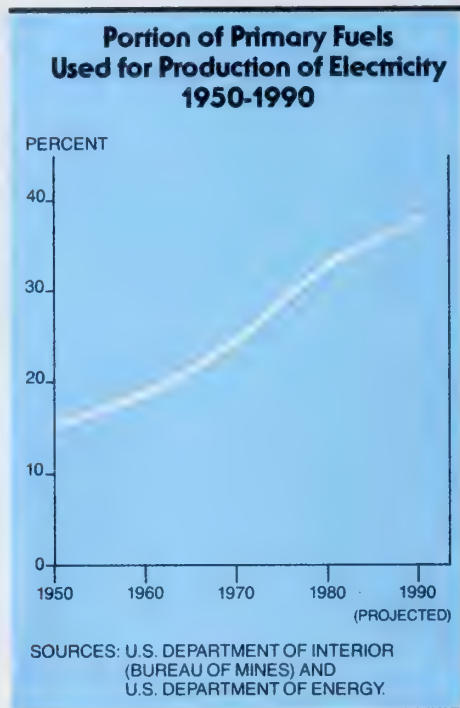
In the last 10 years, the world has witnessed a dazzling array of energy "events" and felt their effects. The Arab oil embargo. Periodic energy shortages. Skyrocketing petroleum prices, now amounting to ten times the pre-embargo price. Radical shifts in balances of payments among nations. Inflation. Conservation, resulting in lowered net oil imports in the United States. And now, an "oil glut", accompanied by a weakening of prices.

After such dramatic changes in energy demand, supply, and prices, can there be any surprises left? The answer lies in our scenario for the 1990s and how each sector of the energy economy will respond to the scenario.

A Scenario for the 1990s

Depending upon the particular authority, U.S. energy consumption in 1990 is projected to be 80-90 quads (or quadrillion Btu), composed of oil, natural gas, coal, nuclear, hydroelectric, and nonconventional or renewable sources. Although the amount of total consumption accounted for by oil and gas will decrease, the flow of energy from primary source to end use will not vary significantly from 1980, as shown in the cover diagram, except in one regard: An increasing percentage of U.S. primary fuels will be devoted to the production of electricity. In 1980, electricity accounted for 32.6 percent of primary fuel consumption, up from 14.7 percent in 1950, and is projected to continue to increase to 37.9 percent by 1990 (Exhibit 1). We are, it seems, becoming an electricity-based society.

The energy scenario of the 1990s will



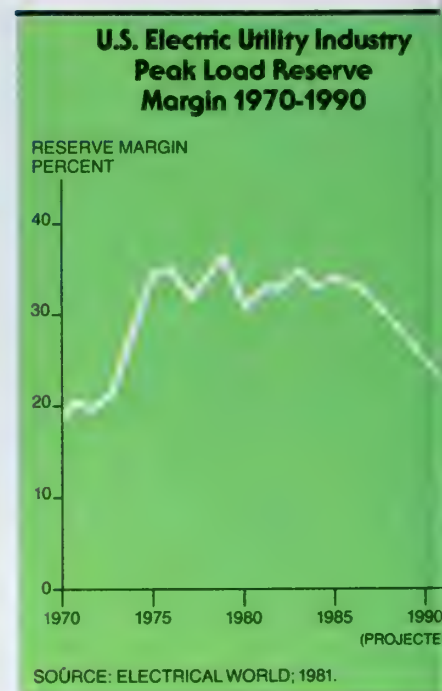
be shaped by seven variables that must be monitored and periodically reassessed as events unfold:

Oil will continue to drive our energy economy. Although refined petroleum products will decline from 45 percent to 35 percent of total energy consumed in the United States by 1990, they will remain the dominant source. Thus, the availability and price of oil will be major factors in the energy scenario of the 1990s.

The United States will continue to be vulnerable to a cut-off of oil. Although the absolute level of imports will decline, it will still be significant—about 5 million barrels per day—in 1990. Thus, a cut-off of imports comparable to the Arab oil embargo of 1973-1974 could play havoc with our energy supply and our economy.

A shortage of electricity, which already threatens some regions, could become widespread. Escalating electric rates, conservation efforts, and a weak economy have, in combination,

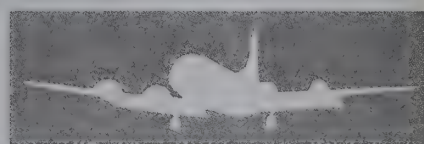
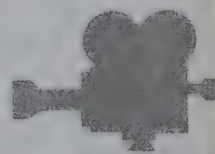
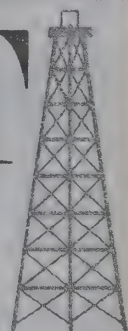
dampened the demand for electricity over the past several years. In turn, this restrained demand, along with uncertainty in future load growth and financing difficulties, has caused electric utilities to reduce their programs for construction of new generating capability. Despite these cutbacks, electric utility peak load reserve margins are still more than adequate on national basis, but the reserve margin is expected to begin dipping sharply about 1985, perhaps to a dangerous low level by the early 1990s (Exhibit 2). Serious regional electric supply shortages could occur much sooner.



Parts of Colorado and the Pacific coast states are already vulnerable to shortages of electricity, and could face curtailed economic growth and the need for rationing of electricity through rotating brownouts. Individual states also may be headed for trouble. For example, in May 1982, the North Carolina Utilities Commission expressed concern over the reserve margins for two of the

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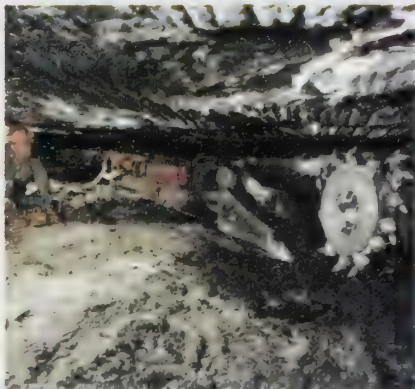
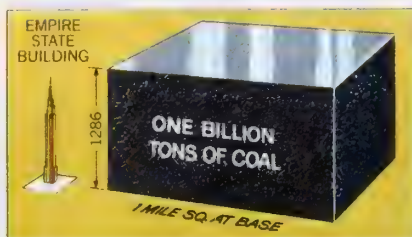
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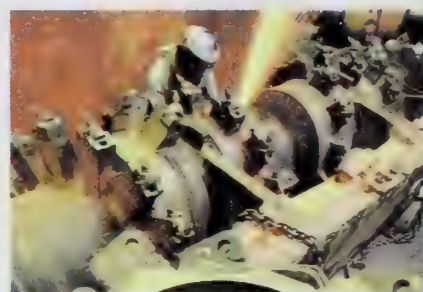
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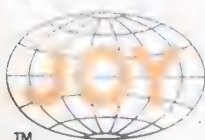


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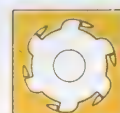
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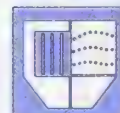
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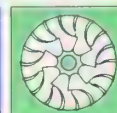
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electric utilities under its jurisdiction, projecting reserve figures of only 14 percent for Carolina Power & Light Company in 1992 (compared with an industry "norm" of 20 percent) and a range of 14.5 percent to a -5.8 percent for Duke Power Company for the period from 1989 to 1995. Furthermore, any disruption in oil supplies could be devastating to the availability of electricity in areas such as California, Florida, New England, and New York where 50 percent or more of the generating capacity is oil-fired.

Government policy on energy will continue to be volatile. Each national election could lead to abrupt policy and program shifts that could affect energy supply, demand, and prices. Increasingly, however, regional and state actions, ranging from the imposition of severance taxes on raw forms of energy to controls over the transmission of power across state lines, will demonstrate the need for a cohesive, stable national policy.

Conservation's prospective impact on energy demand could be significant. We have already seen significant results from energy conservation efforts, especially by industrial users, and as long as energy prices remain at current levels or increase, conservation will remain important in all user segments. For example, the National Academy of Science has claimed that, over the next 50 years, the United States could cut its energy consumption by 25 percent through conservation, while doubling its economic output! However, this dramatic projection is predicated on substantial reductions in energy usage in the residential/commercial and transportation sectors, which remain highly speculative.

Technological breakthroughs, although difficult to predict, would have a major impact. Stimulated by fundamental changes in the availability and cost of various energy resources, technology is advancing on numer-

ous fronts in search of new sources of energy, new ways to convert it to usable forms, and new methods for using it. A major technological breakthrough in, say, nuclear fusion, solar energy, the fuel cell, or an advanced technique for storing electricity would have a tremendous impact on U.S. energy economics and present significant business opportunities for many industries. (See the sidebar on the electric vehicle.)

Economic conditions will be critically important. The state of the economy will have a major impact on the demand for and supply of energy, and it will be an important determinant of energy prices. Capital availability and energy prices, in turn, will determine the level of investment in existing sources of energy (such as oil and gas), in new sources of energy (such as synfuels), and in conservation measures. In the late 1970s and early 1980s, capital migrated to the producer sector of the energy economy, as government controls were relaxed and strong market demand created significant profit opportunities. However, over the next decade, other sectors of the energy economy could present attractive investment opportunities—for example, in facilities and processes for the economic use of energy. Some enterprises will be reluctant to make a long-term commitment of resources until the investment risks and potential rewards can be projected with confidence over a reasonable period of time—for instance, by observing sustained stability in oil prices. Other, more aggressive companies, willing to take risks rather than miss exciting opportunities, will be prepared to funnel capital into the energy economy with less guarantee of success.

Strategic Responses

The energy scenario for the 1990s portends different strategic responses for the six major, interdependent par-

ticipants in the energy economy—the producers, utilities/processors, transporters, government, financial community, and users—depending on their roles and perspectives.

Producers: Diversification

The price of oil is and will be the key determinant of new investments for producers. To illustrate, as the price of oil escalated in the Seventies, petroleum companies moved into coal; as a result, by 1980 five of the ten companies with the largest coal reserves were oil companies. Similarly, high oil prices led to a step-up in domestic oil and gas drilling in 1980 and 1981, as well as private investment in synfuels. Then, when the "oil glut" hit in 1981-1982 and oil prices weakened, producers' interests in such efforts waned.

Clearly, the strategy of major producers in the 1990s will be diversification among several fuel sources, with the extent and nature of these efforts hinging on oil prices and their relationship to the prices of and costs to produce other fuels. Moreover, if uncertain, risky, and rapidly changing market conditions persist, we can expect to see joint ventures between energy producers and other sectors of the energy economy as a means of sharing financial risks.

Utilities/Processors: Better Use of Resources

Faced with uncertain demand growth rates and severe financial constraints, electric and gas utilities are cutting back on construction programs; instead, they are seeking ways to make better use of existing resources.

Conservation and load management programs are the principal thrusts of these efforts, and a number of utilities have set ambitious goals for limiting load growth in this way. For example, Pacific Gas and Electric Company has announced that, through conservation and load management programs, it plans to eliminate the need to build over 4,600 MW of new gener-

Wide range of experts agrees...

AMERICA'S ECONOMIC FINANCIAL HEALTH OF

By Charles J. Cicchetti

Former Chairman, Wisconsin
Public Service Commission



During the past ten years, I have watched the electric utilities go from blue-chip investments to companies beset with financial difficulties. As a nation we face disastrous deterioration of our industrial strength and our living standards — unless this trend is reversed.

The electric utility system is the core of this nation's industrial strength and social fabric. It is time that thoughtful people throughout the country realize the national stake in the system's health and strength. Procrastination will be more costly, and many good options will be lost. If political expedience and inertia continue to rule the day, the ratepayer and the nation will be worse off.

A handwritten signature of Charles J. Cicchetti in dark ink.

By Alvin L. Alm

Director, Energy Security Program,
Kennedy School of Government, Harvard University



The investor-owned electric utility industry is in financial trouble.

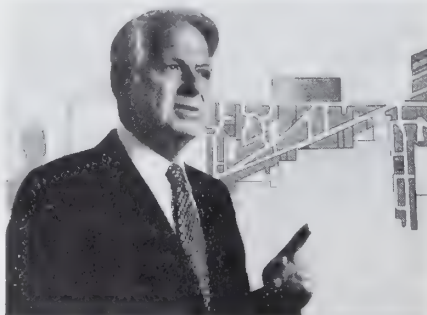
Some public utility commissions, reacting to public anger over rising electricity rates, have squeezed utility earnings and returns to investors so that capital improvements have been delayed or denied.

Restoring the financial integrity of investor-owned electric utilities is crucial if this nation is to have a strong economy and a healthy society. An industry that is financially strapped, heavily in debt and enervated from constant battles with state regulatory commissions is in no shape to meet urgent national needs.

A handwritten signature of Maurice Fulton in dark ink.

By Maurice Fulton

Chairman of the Board, The Fantus Company



The ability of America's electric utilities to make the investments necessary today to assure adequate supplies tomorrow is critical to the industrial revitalization of the country. New generating facilities can require ten years or more to be brought on stream. In the meantime, existing facilities are becoming out of date and increasingly expensive to operate.

But utilities cannot invest in new generation, transmission and distribution facilities — or even adequately maintain existing facilities — if they cannot attract investment capital. To do that, they must be permitted to earn sufficient amounts to assure their financial health and provide returns competitive with other potential investments. In many cases, shortsighted regulatory

policies are sapping the financial strength of utilities so that they are having difficulty raising capital at reasonable cost.

Consequently, programs for new capacity, conversion to cheaper, dependable fuel supplies and replacement of obsolete facilities have been postponed or abandoned.

With alarming frequency, utilities are telling us that they cannot economically handle the increased demand a major industrial development represents today, much less provide assurance of adequate supplies into the 21st century.

The eventual cost to the communities served by these utilities — in lost employment, erosion of tax base, stagnant economic activity — will far outweigh the cost of restoring America's electricity system to financial health.

A handwritten signature of Eugene M. Lerner in dark ink.

By Eugene M. Lerner

Professor of Finance, Northwestern University
Graduate School of Management



Future costs and quality of service depend upon the ability of electric utilities to finance new facilities and equipment now. To attract the capital required, utilities must be able to earn sufficient amounts to provide a fair return to investors after actual operating costs have been defrayed.

Unfortunately, the returns permitted by most state regulatory commissions today are below those offered by competitive, relatively safer investments. Actual

FUTURE HINGES ON ELECTRIC UTILITIES

returns are even lower. As a result, many utilities have had to cut back efforts to increase efficiency, convert to lower cost fuel, and develop new generating technology. When they do undertake such programs, they often must pay premium rates for funds.

Sooner or later, the consumer must pay the higher financing costs that financially weak utilities incur. An alternative is to delay necessary improvements, which will mean still higher costs in the future and possible deterioration of service.

As an important result of more favorable regulation, utility managements are able to make operating and investment decisions based on long-term public need, rather than on short-term financial exigencies.

Sanford I. Weill

By Sanford I. Weill

Chairman, Shearson/American Express Inc.



Business and industry are dependent upon adequate, reliable power at the lowest possible price. Without it, the companies in which our clients invest could not prosper.

Emerging industries could not grow, and basic industries would disintegrate. Essential programs to rebuild the nation's industrial plant and increase productivity would be doomed.

Electric utilities will have to spend about \$340 billion in the remainder of this decade to increase

the efficiency of existing facilities, reduce dependence on petroleum fuels and build the minimum capacity required to meet tomorrow's power needs.

At least half that capital will have to come from outside investors. For utilities, probably more than any other kind of business, that means being able to attract the savings of individuals.

Robert A. Georgine

By Robert A. Georgine

President, Building and Construction Trades Department, AFL-CIO



No one has a greater stake in the financial health of the nation's electric utility industry than Americans who work for a living.

Utilities must be financially strong in order to make the investment necessary to power the industrial revitalization the United States needs if we are to produce the jobs that are absolutely essential to bring about our immediate economic recovery and subsequent growth.

Industry strongly considers the availability and dependability of electricity in its decisions to locate new or to expand existing plants. Communities which cannot assure reliable, abundant power over the long term, therefore, will lose jobs and tax revenues. Indeed, we are already seeing some signs of this on a regional basis.

Robert A. Georgine

By Claire V. Hansen, C.E.A.

President and Chief Executive Officer, Duff and Phelps, Inc.



Utilities in states where reasonable rates are permitted have higher credit ratings. Therefore, they can raise funds at lower cost to the consumer for plant and equipment modernization, conversion to lower cost fuels, new technology development, transmission grid maintenance, and meeting basic local growth requirements. Denial of reasonable earnings will inevitably result in degradation of service—including possible power rationing and brownouts—and even greater escalation of costs to consumers over the long term.

When establishing allowable rates of return, regulators must balance their efforts to keep down immediate consumer costs against the even more important responsibility to assure adequate power supplies for the future.

Claire V. Hansen

This is one of a series of messages sponsored by the Edison Electric Institute, representing the investor-owned utilities that deliver 77% of the nation's electricity.

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ing capacity by 1992. In addition, utilities are showing rekindled interest in marketing programs designed to encourage the necessary use of energy in forms, at times, and under rate structures that serve the economic interests of both the utilities and their customers.

Further, some electric utilities are recognizing the importance of improving the performance and stretching out the economically useful life of existing facilities through well-managed preventive maintenance programs and major rehabilitation projects. Another way electric utilities can make better use of existing facilities is to strengthen transmission ties to neighboring utilities as a means of obtaining access to an adequate and economic source of power. Current plans to build new transmission lines between the northeastern United States and Canada, and within New York State, are examples.

Beyond their short-term strategy of improved resource use, utilities may chart an entirely new strategic course in the 1990s. If prevailing economic and financial conditions, government policy, and regulatory requirements continue well into the 1980s, utilities may be forced to adopt a strategy of providing a level of service commensurate with the rates they are allowed to charge. This would be a radical departure from the traditional concept of a utility's providing reliable, adequate service to all customers at all times.

Transporters: Linking Energy Production, Processing, and Usage

Like electric and gas utility services, the availability of adequate, reasonably priced transportation of energy has been taken for granted. Today and in the future, however, the capital investment requirements for new or improved transportation systems are huge, few companies, and even fewer banks, are willing to shoulder

the financial burden without some assurance of success.

The strategy of the 1980s and 1990s will be to link suppliers to transporters to users to ensure markets before projects are undertaken. An excellent case in point is the development of sophisticated coal transportation systems.

Water and rail are the primary alternatives for economical shipment of coal; as waterway routes are limited, the burden falls largely on the railroads. But the nation's railroads are simply not in a physical condition to handle a sharply increased volume of coal traffic without a major overhaul of roadbeds and equipment, which would require massive investment. But will future coal traffic be sufficient to justify such investment? One way of guaranteeing future demand is to follow Santa Fe's lead of tying its investment in a coal mine and a railroad extension to a long-term coal contract with Tucson Electric Power.

Coal exports to foreign markets, which will increase from perhaps 105 million tons in 1982 to an estimated 140-150 million tons in 1985, will necessitate expanding coal-loading facilities. But here, too, investors will want to be assured that the installations will be used over the long term. The Pittston Company, a major coal producer and exporter planning to build loading facilities in both Newport News and Portsmouth, Virginia, is obtaining such assurance by signing up as partners other coal companies that presumably hold coal export contracts, including Westmoreland Coal Company, Consolidation Coal, and Island Creek Coal Company.

Government: Reliance on Free Market Operations To Reach Energy Independence

The role the federal government will play in the energy economy in the 1990s depends on the political winds and international relations. It could be

shaped largely by public opinion—that is, the amount of pressure the American people bring to bear on the government to ensure the reliability of energy sources regardless of the party in power. But barring a reversal in the current public antipathy to big government or a major upheaval in the Middle East, the federal government will not be as deeply involved in the energy economy as it was the last decade.

At the state government level, the most pressing need is for reform in the regulation of utilities. The unfortunate adversarial relationship between utilities and regulatory commissions must be abandoned, and both parties must work together to balance the financial viability of the industry with consumers' short- and long-term interests in economical and reliable service. Imagination and creativity are sorely needed in reaching this balance, and recent utility-customer sharing arrangements suggest equitable solutions can be found. For example, Northeast Utilities (NU) has worked out an oil conservation adjustment with the Commonwealth of Massachusetts. Under this innovative arrangement, NU was able to overcome a financial obstacle to converting its Mt. Tom generating station from oil to coal by agreeing to share with consumers the savings from burning coal.

Financial Community: Increased Attention to Real Markets for Goods and Services

As an intermediary between sources of capital and the other participants in the energy economy, the financial community plays a vital role. Over the next 10 years, the total capital requirements of oil and gas producers, the coal industry, electric and gas utilities, and the transporters of energy will amount to several hundred billion dollars.

In exploring the financial feasibility of a particular energy-related project, financial institutions will be paying

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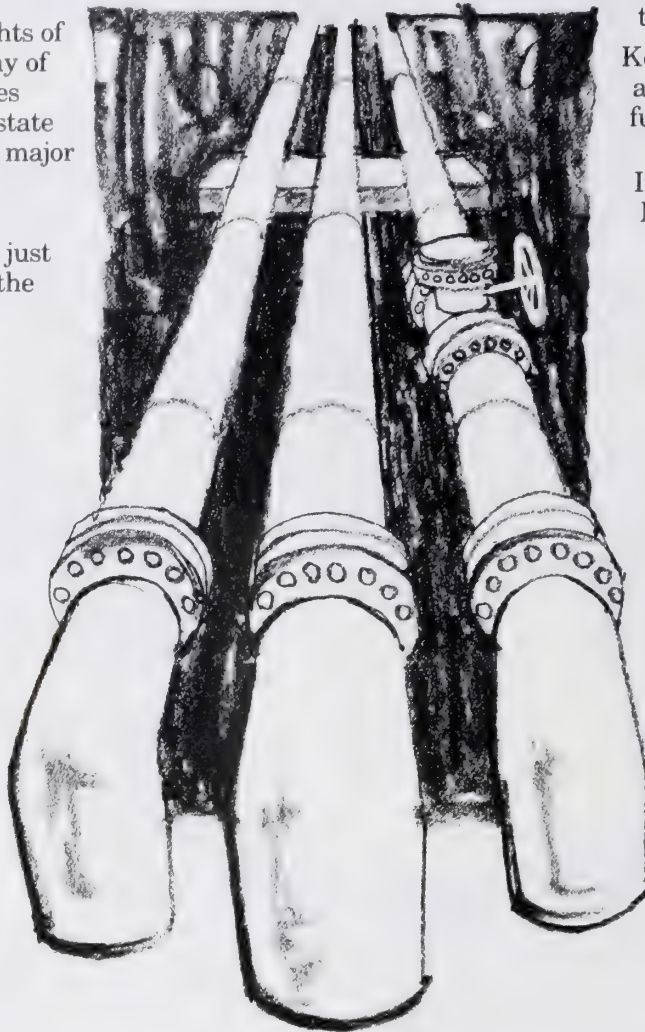
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increased attention to the marketability of goods (such as coal) and services (such as rail transportation). Penn Square Bank's recent collapse because of large losses associated with their loans to energy-related companies has made many financial institutions especially wary about the creditworthiness of such projects. As a result, they will want to explore carefully the prospective relationships between buyers and sellers and the contracts or other arrangements that provide reasonable assurance the investments they underwrite will be secure. It seems likely they will favor those deals in which the potential risks and rewards will be shared by two or more creditworthy parties. Moreover, this approach is quite consistent with creative financing techniques such as project financing, which is expected to play an increasingly important role in future energy development.

Users: Reduction in Energy Usage and Costs

Energy users of all types will continue efforts to reduce their energy usage and costs.

Industry can reduce energy use through better housekeeping and investments in new facilities or processes. Much of the fat in energy consumption that better housekeeping could eliminate (e.g., adjusting lighting levels, maintaining furnaces at peak efficiency, and turning off motors when they are not in use) has already been trimmed. Future savings will probably be achieved mainly through investment in new facilities and processes—for example, a simple retrofit of equipment to recover waste heat, installation of a cogeneration facility (for the joint production of steam and electricity), or relocation of a plant to a more "energy favorable" area.

Residential and commercial users will also continue to seek ways to cut usage and costs. For example, one energy manager of a fast-foods busi-

ness follows three simple conservation guidelines: excellent maintenance practices (including adequate insulation, and control of hot-water temperature and usage), life-cycle costing for retrofitting and new construction decisions, and a preference for proven technology.

The energy scenario for the 1990s represents important threats and opportunities for every participant in the energy economy. The better one understands the fundamental forces—i.e., the variables—at work, the better one can make those strategic business decisions in which the availability of an adequate, reliable, and reasonably priced supply of energy is an important factor. Those entrepreneurs who remain alert to changes in these factors that shape the scenario and who interact effectively with other participants will be most likely to neutralize the threats and capitalize on the opportunities.

About the Organization

Cresap, McCormick and Pager Inc. (CMP) is a general management consulting firm, serving virtually all types of enterprises concerned with energy—industry participants, energy users, transportation companies, equipment manufacturers, architect/engineers, members of the financial community, and regulatory agencies. Within the energy industry, CMP has served oil, gas, and coal producers as well as electric and gas utilities in the United States and abroad. CMP assists clients in dealing with uncertainty, high risk, and rapid change by providing counsel in business strategy, human resources, and management processes.

A Technological "Fix": The Electric Vehicle

Ever since Henry Ford first mass-produced his "basic black" Model-T, America has carried on a love affair with the automobile. Today, we are as disdainful of public transportation as we have ever been.

But our "mistress" is costing us a bundle. The amount of petroleum we use in our passenger cars and trucks just about equals the current level of our expensive, vulnerable oil imports.

One alternative is the electric vehicle, or EV. Although widespread use of EVs could be an important contribution to our energy independence, commercialization has been delayed by the debate over the type of battery required. Some experts, such as Carey Rowan, who has been involved with the EV since 1967 and is in charge of Philadelphia Electric Company's 20-vehicle demonstration fleet, feel that the currently available lead-acid battery is sufficient for some immediate needs. Limited to a driving range of 40 miles and producing a top speed of 50-55 miles per hour, it is adequate, in Rowan's view, for the second-car needs of many families.

General Motors, on the other hand, having already invested substantially in EV R&D, is holding out for improved vehicle performance from an advanced battery.

Given this debate, when can we expect to see EVs in common use? Early commercialization hinges on (1) continued R&D of an advanced battery in the private sector, and (2) federal government support, which has amounted in the past to \$180 million (the Electric and Hybrid Vehicle Act of 1976), but which may be cut off under current Reagan Administration proposals.



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Looking at utilities

Are Ohio utility companies really the greedy, vampirish ogres they are portrayed to be by so many exasperated consumers and critics?

The answer is no. Yes, utility rates are going up at a frustrating rate. Yes, the Public Utilities Commission of Ohio is granting a large percentage of rate requests. Yes, utilities are monopolies.

But utilities are highly regulated, 30 percent of the utility dollar goes for taxes and they are businesses subject to inflation and high interest rates just like everyone else.

An important fact that often escapes critics is the purpose of a utility in the first place — to provide a service to consumers as needed.

IN OTHER WORDS, when you flip a light switch or change the thermostat or pick up a telephone, you expect something to happen. That's what the customer is paying for — electricity or gas or telephone services.

The utility officials we have come into contact with don't have horns and a long pointed tail, they are human beings trying to match the production of utilities to public demand at the lowest cost.

The recession has hit energy utilities in a manner not fully appreciated by residential customers. When a steel mill or some other energy-consuming company goes out of business, Ohio utilities lose a good customer. Obviously when many companies shut down, a utility reduces production. But it has to maintain the capacity to handle the demand when the plants resume operation — which we all hope will be soon.

In addition, energy utilities have to predict what the demand will be down the road and start constructing facilities long before their output is needed.

The rate request process is regulated by law and the operation of utilities is one of the most carefully scrutinized areas of business in the country.

Residents and businesses in the Canton area are indeed fortunate to have the lowest natural gas and electricity rates in the state because of two well-managed companies — East Ohio Gas Corp. and Ohio Power Co.

Now, does this mean that Ohio utilities are perfect and could in no way be improved?

The answer is no. Every operation could be improved in one way or another. It's just that harping and griping and name calling only serve to heat up emotions without solving anything.

If improvements are to be made, it has to be in the regulatory process and they have to be undertaken from an informed perspective that not only considers the consumer, but takes into account the responsibilities and problems of utility companies.

Most consumers would be overjoyed if tomorrow's headlines reported that all utility rates were being cut in half.

But in truth, such an arbitrary action would insure chaos throughout the state because the effect would be devastating on business and residential customers. Service levels would be cut, maintenance would be cut, factories would shut down and so on.

SO THERE ARE some things worse than rate increases — namely disastrous service interruptions. We are an energy-consuming society. Until we find cheaper sources of energy, we are going to have to find ways to live with the situation while we work together to keep the energy flowing as efficiently as possible.

THE CANTON REPOSITORY, Canton, Ohio
July 28, 1982 — An Editorial

**We're American Electric Power.
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The Up & Comers

Cisco Urrea of Nuclear Pharmacy and Summa Medical hates venture capitalists because he thinks they held him back. They may have saved him from himself.

Ungrateful?

By Lisa Gross

LAST SUMMER Francisco Urrea's second venture, Summa Medical Corp., was looking shaky. Formed in 1979 to develop a cancer detection drug that had promising laboratory results, Summa had lost \$1.2 million, its stock selling at an alltime low of 32 cents a share. It had \$1.8 million in CDs to carry it another year until its drug, Tumortec, could finish testing on humans. And, like its high-tech clone, Genentech, it had yet to make the first sale.

One obvious way to keep the money flowing in for research would have been to seek the backing of a venture capitalist. But Urrea, a cheerful, easygoing man who acts like the insurance salesman he was for 20 years, gets a steely look in his eyes at the mention of the words venture capitalist. In his opinion, those were the people who prevented him from growing his first company, Nuclear Pharmacy. Started in 1974 with \$50,000 from the American Bank of Commerce in Urrea's hometown of Albuquerque, plus \$200,000 from friends, Nuclear Pharmacy went the venture capital route in 1978, selling 425,641 shares to Warburg-Pinkus for \$1.3 million and another 153,846 shares to two Frederick Adler groups for \$600,000. A pioneer in the preparation of single doses of radioactive cancer and diagnostic drugs that hospitals can buy directly from licensed pharmacies, Nuclear Pharmacy earned \$1.3 million on \$27.4 million sales this year, returning

13.2% on equity with \$594,363 debt.

Urrea's gripe is that he thinks the company could be twice the size it is today had it not been for having to sell almost 47% of Nuclear Pharmacy to the venture capitalists and the public to keep it afloat. Nuclear Pharmacy needed to take chances to grow, he explains. But the venture capitalists

voted against developing new products. Perhaps they were thinking more clearly than Urrea, who contends, paradoxically, that he had to give away the store to finance, while insisting it could have grown even faster. There's a flaw in his logic, and the venture capitalists caught it.

But like many fledgling entrepreneurs, Urrea wanted to run before he could walk, to quickly expand Nuclear Pharmacy. After all, it takes \$75,000 to \$100,000 to open each new nuclear pharmacy. So in 1977 Urrea raised \$410,000 from a Regulation A registration. In 1980 he did a second registration through Allen & Co., selling 825,000 shares for about \$5.2 million. That did the trick. Since then Nuclear Pharmacy, now with 42 pharmacies, has been able to finance its growth entirely from internally generated funds. The trouble was Urrea's stake in the company had been reduced by these repeated equity financings. Today he owns 200,000 shares, 5.5% of the outstanding, worth about \$2.2 million.

You might think that Urrea would be grateful to his backers for enabling him to develop a \$27 million (sales) company in just eight years. But Urrea is convinced the venture capitalists and initial investors held him back, thinking only of short-term profits and then selling out at huge gains. He's certainly right about huge gains. Warburg sold out in June, earning about 300% on its investment; Adler is still in, its stake almost tripled.

But hold him back? Urrea cites the time in 1978 when President Robert Sanchez wanted to expand Nuclear Pharmacy by funding the cancer-tracing drug research of Dr. Buck Rhodes, then of the University of New Mexico. The idea was to distribute the developed product through Nuclear Pharmacy's network. Urrea thought it a great idea and discussed it with Rodman W. Moorhead, the Warburg-Pinkus representative on Nuclear Pharmacy's board. Moorhead nixed the idea, saying Urrea again was trying to do too much too fast. Moorhead also recalls Urrea approaching Warburg to fund a radiopharmaceutical product; Warburg nixed that idea, too. So Urrea formed a separate company, of which he was president and chairman, which would become Summa. He raised \$200,000 from private investors to fund Dr. Rhodes' research at the university and sold the Canadian rights for the yet undeveloped product for \$350,000. Then in Au-



Francisco Urrea of Summa Medical
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The Up & Comers

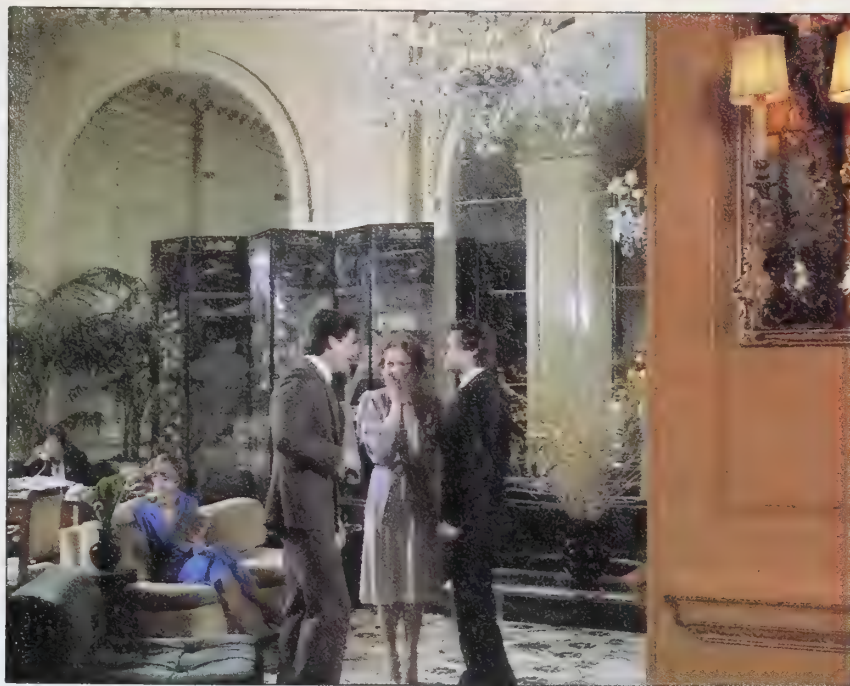
gust 1979 Urrea did a Regulation A registration, selling 3 million shares for 50 cents apiece in the new company, netting \$1.2 million. That was followed by another offering in October 1980, combining convertible preferred with common and warrants, that brought in \$1.9 million to Summa's cash-hungry research furnace.

It still wasn't enough. After three years, Summa didn't yet have a product. It felt its research, using the radioisotope Technetium-99m as a universal tumor marker, was at least two years ahead of the competition, led by California-based Hybritech. Easy to say: Hybritech doesn't use Technetium-99m, its research targeted at imaging and therapeutic products for specific cancers instead. But by now Urrea and Sanchez were really boxed in. Another stock offering was out of the question, since Summa still had no revenues. They couldn't borrow from the banks because Summa's only assets were technological promises.

So they decided to put up some of their own assets. Urrea and Sanchez had invested \$1 million of borrowed money to drill 18 oil and gas wells, under a partnership called Scout Petroleum. Scout brought in 16 wells and about \$30,000 a month to the two entrepreneurs, but they were losing 70% of the revenues to taxes. Shelter those earnings with Summa's development losses, thought Urrea, and maybe the market would take a more favorable view of a merged Summa/Scout. As a result, Summa, 42% owned by Urrea and Sanchez, exchanged some \$2 million in stock for Scout's \$3.3 million in projected future net revenues.

Trouble is, institutional investors questioned that not-quite-arms-length transaction. "Some people wondered if the Scout deal was a way for Urrea and Sanchez to get out from under it," says Janice LeCocq, an analyst with San Francisco's Montgomery Securities, which handled Summa's \$2 million offering last month, sold mostly to institutions. However, offsetting that doubt was the human testing, now completed, of the first Tumortec product at Vancouver General Hospital. Summa filed for its first marketing permit in Canada last month. If it gets Canadian approval, then Summa could go into the black next year. If not. . . .

Urrea already has a new building to house it. "Summa was a wild, wild venture in 1979. A scientist's dream that we made work," he brags, urging a



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visitor to climb a ladder for a peek at the unfinished second-floor laboratory.

Urrea never intended to start one high-tech drug company, let alone two. His first work experience was as a shepherd on the 20,000-acre ranch his father leased outside Albuquerque. That was nothing but hard labor, so after high school and a stint in the Navy during the Korean War, Urrea decided to try for a college business degree. At that point he was working for American Furniture, a local company that became Urrea's business school.

But by the time he was 28 and managing the store decorating department as well as acting as buyer for housewares, china and lamps, he knew it was time to make his break. Urrea needed more money for his own growing family. So for the next 20 years he sold insurance for New York Life. "At the same time, I kept investing in land in New Mexico and in small businesses." He bought land near Albuquerque and Santa Fe, in what he thought would be the path of their expansion. Urrea fared well. He bought his first piece of real estate, 2¼ acres outside Santa Fe, for \$750 in 1952. He sold it six years later for \$36,000, reinvesting the profit in more land and stocks.

Then one day in 1973, while he was still a New York Life agent, Urrea listened to a friend's 23-year-old son, Robert Sanchez, discuss the bright prospect of selling radioactive drugs on a prescription basis. At that time, hospital pharmacies mixed all radioactive drugs. The resulting insurance costs were high, and it was an unpopular task among hospital staffers. It was a problem waiting for an entrepreneurial solution, Urrea realized. He and Sanchez took the plunge.

Flush with bright hopes about Summa's future, Urrea grows philosophical about the way he handled his second startup. "If I had it to do again," he says, "I would go public a little earlier, and not have so many insiders, the initial private investors. What hurts you is that after two years they try to get their money out and take big profits. Some of them cashed in for as high as \$100,000 for a \$5,000 investment. These people take the money and run, and abandon you before the company has totally developed," he says. But then Urrea's innate optimism overwhelms him again: "The one that gets to the market first in this field will be the IBM, the Xerox. That's the trick, to get there first."

As long as you don't go broke doing it, as Urrea's venture capitalist backers undoubtedly pointed out on more than one occasion.

The Up & Comers

The saga of Tweezerman

Harvard Business School: the golden door to success. Don't tell that to Dal La Magna, 36, HBS 1971. The Brooklyn-born entrepreneur last year pulled in \$16,000, the most he has ever made in a single year since graduating. Back then, the median starting salary of his classmates was \$15,000. "At our ten-year reunion," says La Magna, "one friend figured out that I lowered the average income of our class by \$80." But while classmates opted for Morgan Stanley and McKinsey, La Magna was an entrepreneur. He tried everything: a teenybopper nightclub that served no booze; water bed retailing; psychedelic lighting and computer-

ized dating. They all failed. "I was in a rush. I wanted to make a million in a week." After graduating from Harvard he became a codirector of a film school in Cambridge but discovered he couldn't manage artists. Later La Magna found he could manage a bar-restaurant—where he stemmed losses of nearly \$2,000 per week within eight months—but that quickly proved dull. He headed for Hollywood where he tried (and failed) to produce a horror film, then opened an ice cream parlor.

His first creation: the La Magna lasagna baking pan, perfectly sized so that a cook need not snip the noodles to make them fit. He spent months convincing lasagna makers to put coupons on their boxes to advertise his pans. "I had 6 million lasagna boxes tied up for the first year," he



Dal La Magna, aka Tweezerman

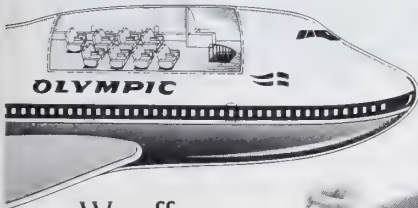
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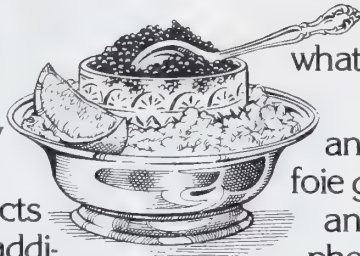
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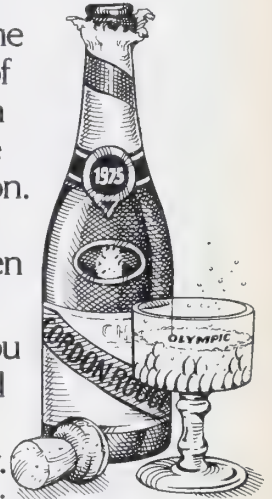
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claims. But he couldn't raise the \$25,000 it would take for a pan manufacturer to tool up. End of idea.

Tired of bouncing from one thing to another, he came back to New York to work a steady \$200-a-week job as a contract administrator with Apoca Industries, Inc. There he saw workers lift diodes and capacitors with pointed tweezers. The light bulb went on again. He could buy the tweezers wholesale and sell them as splinter removers. With \$500 and ten credit cards (on which he borrowed money through advances), he started up the business in 1979, calling it Tweezer-man. Now he imports a line of La Magna-designed high-quality tweezers from several European suppliers and sells them to expensive department stores like Henri Bendel and Neiman-Marcus.

La Magna thinks he has finally discovered his Hula-Hoop. "The world thought I was crazy when I said here's a tweezer you can sell for \$15, but I was right." Apparently customers don't mind paying about four times as much for his handcrafted tweezers, made of stainless steel, not the usual nickel-plated steel. But the big advantage, claims La Magna, is that his tweezers "really pull what you want to pull" and come in three styles: pointed, blunt and slanted. They make it easier to pick at hairs, splinters or whatever.

Working with only three full-timers out of his home in a Long Island suburb of New York, he did \$180,000 in sales last year. "Chase Manhattan finally broke down and lent me \$10,000 after two years of trying to get a loan," he says. La Magna expects to do \$600,000 in sales this year.

Before slipping into his silver Audi with the license plate TWEEZERS, La Magna says matter-of-factly, "I should finally be a millionaire in three years, thanks to tweezers." And if he isn't you can bet he will be back with something else.—John A. Byrne

Tough act to follow

Plantronics of San Jose, Calif. first made its mark 20 years ago when it introduced lightweight headsets for telephone operators and aircraft pilots. The thin little headsets were so much more comfortable than their bulky, heavy World War II-vintage predecessors that Plantronics captured a near monopoly position and turned in returns on equity of better than 20% throughout the 1970s.

But then what? Like many entrepreneurial companies, Plantronics quickly saturated its original markets. Not content with fat margins and little

The Up & Comers

growth, then-Chairman Courtney Graham hit the acquisition trail with a vengeance, buying firms in such related fields as electronic telex terminals and other communications equipment. But Graham made the mistake of buying firms with me-too products that lacked the technological advantage his headsets had offered. He thought Plantronics could achieve the needed innovations, but the results were disappointing: Return on equity



Plantronics' Neil Hynes
Encore?

plunged from a high of 26.7% in 1972 to about 12% last year. In 1980 Courtney Graham stepped down for health reasons. Within 18 months, almost all of Plantronics' senior executives made their exits as well.

Enter Neil Hynes, 47, a former Boston cabbie who spent 15 years with Raytheon and who had been president of American Telecommunications Corp. Recruited by a group of the worried Plantronics board led by George Dean, a retired executive of Pacific Telephone & Telegraph, Hynes promptly closed down an office answering equipment product line called Centravox and sold a telephone management systems subsidiary to Honeywell for \$13.8 million. He would also have sold the electronic telex switching equipment business but couldn't find a buyer.

What interested Hynes was the Zehntel division, which makes automated test equipment and accounts for 35% of Plantronics' sales. He predicts Zehntel will increase its market share from 20% to 25% this year, nosing ahead of Hewlett-Packard as

the third-largest producer in the ATE market.

Meanwhile, on the strength of big orders from Canada and Japan, where Plantronics is the first American supplier to gain approval to sell telecom equipment, he hopes headset sales will grow 25% this year.

But Hynes candidly admits the time is past when Plantronics can get better than 20% returns on equity.

Like the tortoise who wins the race, Hynes can be forgiven for wanting to appear content with more modest returns. After all, it was the compulsive search for another headset blockbuster that threatened to undermine his predecessor.—John A. Byrne

"Rear admiral"

The true entrepreneur never turns a deaf ear at a dinner party, no matter how tasteless and boring the conversation. If you doubt that, consider the case of Howard Stern, president of E-Z-EM Co. In 1959 he found himself listening to Dr. Phillip Meyers telling about a cross-contamination problem in patients receiving barium enemas before examinations of their lower intestinal tracts by X ray. Hardly an ideal topic over dessert, but Stern was all ears. At the time, the enemas were given from a bucket loaded with barium through a nondisposable tube and rectal tip. Stern, then a \$10,000-a-year marketing director for a tiny radiation applications firm, immediately spotted an opportunity. Why not make bags that are disposable?

With Meyers' assistance he went to work, buying a 100-pound barrel of barium sulfate and bringing home some cheap polyethylene to make bags he could seal with his mother's iron. "Friends visiting the house were always astonished to find test bags draped on the shower curtain next to the pantyhose in the bathroom," Stern recalls. Never mind. More pressing was the problem of how to mix barium sulfate with water inside the bag. It generally had to be mixed in a blender, but Stern discovered it could be kneaded in the bag after water was added. Any small lumps of sulfate left could be caught by a filter device, which the pair then designed. The first crude kit was made in 1960.

Of course, his crude, homemade bags wouldn't do in a hospital environment, so Stern found a manufacturer of inflatable vinyl toys who was happy to make the bags for him. A maker of fishing lures was talked into making the rectal tips. With samples in hand, the pair went to the Fugera Co., hoping to sell the patented idea

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In recent years, the economy has produced record levels of investment income. But inflation has led to record hospital and medical fees and auto repair costs—the things insurance pays for. Meanwhile, auto insurance premiums have risen less than the costs of mending bodies and repairing cars.

The result is that insurance companies have committed more dollars for auto insurance claims and general expenses than they have collected in premiums. In industry jargon, that's called an “underwriting loss.” Fortunately for customers and companies alike, investment income has more than offset those underwriting losses and has enabled insurance companies to make an overall profit.

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for royalties. But Fugera, after distributing 500 of the kits free to hospitals, decided the market was too small to bother with.

What to do? For Stern, who had just been fired from his job, the decision was simple. "I was fired and single, with little overhead because I lived at home," says the 51-year-old entrepreneur. "I had the freedom and opportunity to do it with nothing to lose. I wasn't a risk-taker."

He and Meyers put up \$1,000 each and went into business in 1962, the same year that a major radiology magazine carried three separate articles (one of them written by Meyers) on the contamination problem. Stern set up shop in a 12-by-15-foot room in his father's garment factory loft in New York City. He made up to 100 bags in the morning. Then he hit the road in the afternoon to drum up business and make deliveries.

It was not easy. His business trips were mainly to Detroit, Philadelphia and Boston because he had friends in those cities he could stay with. "I was the biggest mooch going," laughs Stern, "but I only made about \$10,000 for the first three years."

The Up & Comers

It was not long before Stern discovered that some radiologists were using his barium sulfate for oral examinations as well. So Stern began selling barium sulfate in various flavors without the bags. He moved his operations to his present 2,000-square-foot plant in 1964 after landing a big contract to make the bags for Mallinckrodt on a private-label basis.

Then medical giant Baxter Travenol came into the business in 1964. When Mallinckrodt ditched its contract with him to go out on its own in 1968, Stern panicked and cut his prices. Baxter cut its prices further. Stern began losing market share. Then he switched gears, stressing service by providing more special orders to radiologists. When domestic growth slowed, he looked overseas, which now accounts for 20% of his sales. Simple strategies, but they worked like a charm.

Today his still-private E-Z-EM Co. does \$28 million in sales and is growing at 35% a year in earnings. His margins are a well-above-average

7.5%. Trouble is, Stern already has 65% of the domestic market, against Avon's Mallinckrodt and others. So he is branching out. He is making thermograms, a chemically treated piece of plastic that changes color according to body temperature (a process he bought from a bankrupt company). The devices are useful in screening women for risk of breast cancer, among other things. He racked up \$300,000 in sales last year on thermograms and is predicting \$10 million within three years. "Some day, this device will be as common as a thermometer in a doctor's office," he says. So far he has little competition.

Still, it's the enema bags that keep Stern going. He gracefully ignores the inevitable jokes (his mother-in-law calls him the "Rear Admiral"). Does he mind? He laughs all the way to the bank.—John A. Byrne

"Nobody likes to spend extra"

Arthur Golden was having a bad day. It was 1965; he was selling tickets to Broadway shows out of a kiosk in New York's Penn Station, struggling to pay off debts and desperate for ways to expand his business. He couldn't even persuade a florist to take a phone order. That really annoyed him. "I said I had an American Express card and she could charge the flowers to it, but she said I had to be there in person," Golden recalls. "After I hung up, I turned to my wife, Gladys, and said, 'You know, it just isn't fair. Companies can charge by phone, but little people can't.'"

From that injustice came CHARGE-IT, a service that lets people buy tickets by phone. "We should do \$160 million this year," he says proudly.

Golden's idea for CHARGE-IT (the "g" is underlined to make sure it is pronounced "Charge it") was simple: Let people charge tickets for Broadway shows, sporting events and concerts to their credit card by phone.

Trouble was, Golden, then 47, was in hock up to his ears. He had failed as a furniture manufacturer, had spent a long time selling dairy products door to door, and thanks to the Penn Station experience had been forced to refinance his house several times and borrow from friends. Besides, credit cards were relatively new, and nobody allowed people to charge items by phone. Still, Golden managed to convince Diners Club to send out 5,000 flyers explaining his idea to customers living in the New York metropolitan area. In direct mail, a 2% to 3% response is considered good; 200 peo-



E-Z-EM's Howard Stern

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ple, or 4%, told Golden they were interested.

"On the average, those 200 people bought ten tickets a year," Golden says. "It was a start." American Express customers were added, and by the late 1960s Golden was selling more than 40,000 tickets a year. Still, it wasn't the volume he wanted. The problem was price.

Golden was charging \$1.50 to obtain the tickets and another 50 cents to cover the credit card companies' fees for processing his orders. A \$2 service charge, when the average theater ticket sold for \$12, was steep.

"You can't do volume business at ticket-agency prices," Golden says. "The schoolteachers or other people who like to go to cultural events don't have a lot of money, or they don't like

The Up & Comers

to spend it. Nobody likes to spend extra."

But how to lower costs and still make a profit when Golden, Gladys and others in his small ticket shop were answering the phones? In 1974, on a ride to Atlantic City, the light bulb went on for a second time: "If you could put in a computerized system to process the orders, and update the availability of tickets anytime you wanted, you could use clerical people," said Golden. He was 100% correct. The business started growing at 25% a year, and Golden now sells 25% of all Broadway tickets. That number will increase as ticket prices increase, he says. An orchestra seat to

a hit Broadway show like *Nine* now sells for as much as \$40, and as the prices go higher more people will charge tickets to defer payment, Golden predicts.

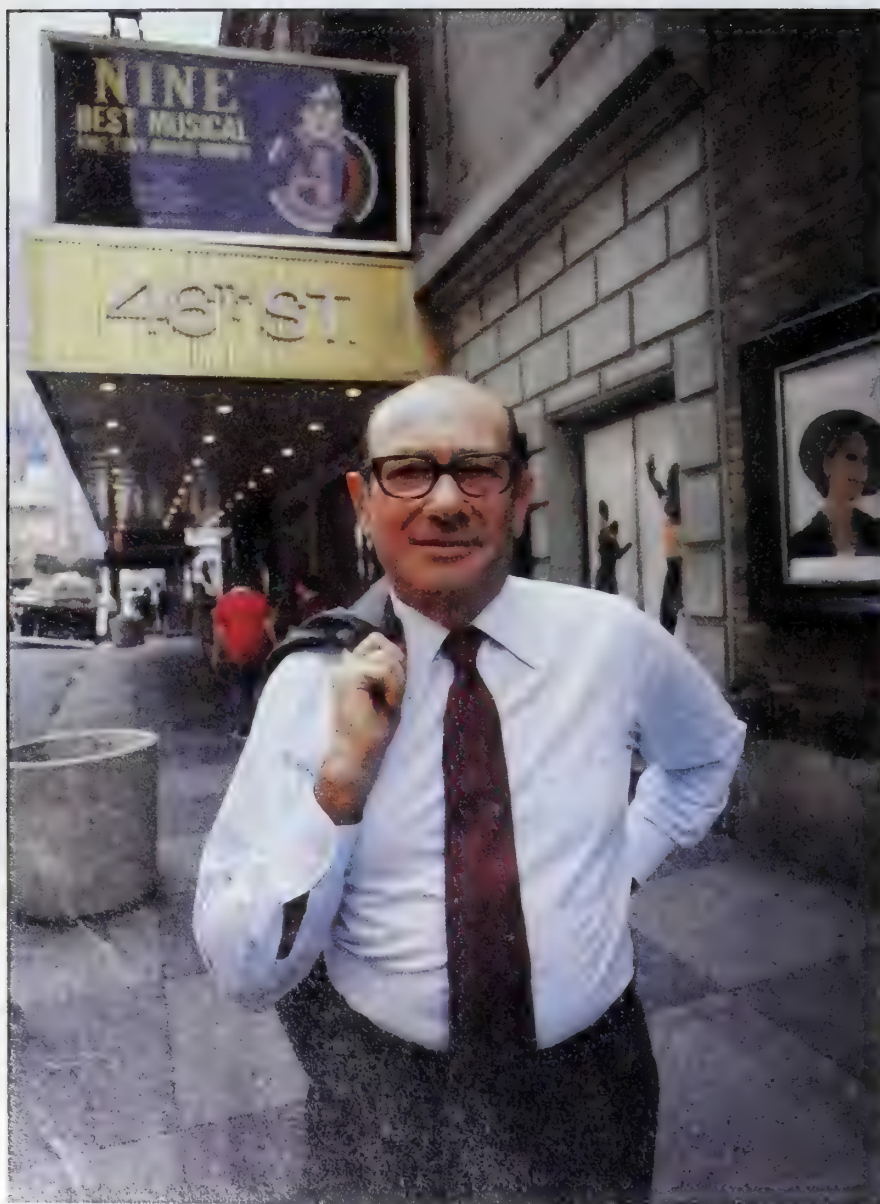
Golden has competition, of course. Ticketron, which guarantees a specific seat as opposed to CHARGIT's promise of the best available one, also has a portion of the market, and some theaters handle orders by phone themselves. If everyone can do what Golden does, why isn't he out of business? "Why don't we mop our own floors?" he asks. "It is because other people do it better and cheaper. If you own a theater, what do you do with the people on the phones when things are slow or when the show closes? If you let them go, you have to train new people all over again. When somebody makes a mistake it is going to cost you \$80 for two tickets. That's why they don't do it."

That is also why CHARGIT handles ticketsales in 23 cities—all the calls are routed through New York—and is in the process of expanding to London.

The need to make maximum use of CHARGIT's computer system has spawned another line: processing restaurant credit card receipts. When a customer charges a \$100 meal, the restaurant receives about \$96. The credit card company charges about 4% to process the payment. CHARGIT buys the restaurant's slip for \$96.50, combines it with other slips, puts them all on computer tape and gives the tape to the credit card company. Because CHARGIT has done some of the processing work, the credit card company charges it only 3%. In essence, the restaurant and CHARGIT split the savings.

How much is all this worth? Well, of the \$160 million in sales CHARGIT expects to handle next year, CHARGIT's gross will be about \$7 million, Golden says. The net? Golden won't say, but a good guess would be about 25%, or \$1.75 million.

But even with those kinds of numbers, don't expect CHARGIT to expand beyond computer processing of services. Golden says he has learned his lesson. Flush with success in the late 1970s, Golden decided he should sell prime quality meats by mail to customers of CHARGIT. "You would think our customers would have been the perfect market," he says. "We sold maybe one steak. I couldn't figure out why, so I asked a friend. She said, 'If I want tickets, I'll come to you. If I want a steak, I'll see my butcher.' From that I learned: Stick to what you know."—Paul B. Brown



Arthur Golden of CHARGIT

"I turned to my wife, Gladys, and said, 'You know, it just isn't fair!'"



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swissair 

One by one, many old American technology companies have fallen behind the parade. But Corning Glass Works is determined to avoid that fate.

"It takes a lot of patience"

By Stephen Kindel

JAMES HOUGHTON, Corning Glass Works' vice chairman and chief strategic officer, lights one of his habitual cigars and stares out the window at the gloomy fog enveloping Corning, N.Y., the company's hometown. He speaks with the authority of an executive whose older brother is chairman and whose family controls 30% of the stock. "Business is really bad in some areas," he says. Then he tugs on his lavender velvet suspenders: "But that hasn't stopped us from keeping to our plans. By the late 1980s you'll see a Corning with sales twice as large as today, but only half of whose businesses are what are considered traditional Corning businesses." Almost magically, the fog in the valley begins to lift.

The fog over the business may not lift so quickly. The \$1.6 billion (sales) manufacturer of such mundane items as glass blanks for incandescent light and refractories for the steel industry is undergoing a radical transformation. It is seeking to escape the cyclicality that afflicts the housing, steel and auto industries it serves. None too soon. The color TV tube bulb and automotive catalytic converter substrates that made Corning a star of yesteryear have all gone flat at once; those traditional lines of business accounted for more than 57% of operating income as recently as 1980. Today, they barely yield 40%.

Corning's product line has swelled to more than 60,000 items, which is far too many for the company to achieve efficiencies of scale for most of its products. The company's profit margins have fallen from a high of 8.8% in 1979 to a dismal 3.3% for 1982. Already the company has scaled down several of its traditional busi-

nesses, such as the blanks for light bulbs, a business it invented when it produced the first glass bulbs for Thomas Edison back in 1880.

It's the old story: Today's technological marvel is tomorrow's ho-hum commodity. You can move out of light bulbs easily enough. The question is: What do you replace them with? While Corning is not abandoning its profitable consumer products line, Chairman and CEO Amory Houghton Jr. will ease away from glass and move boldly into medical instruments, life sciences and biotechnology. Whether Corning's new technological thrusts will provide the same payoffs as the previous generation's, only time will tell. But Corn-

ing's commitments to life sciences are already substantial. ("If you want to win, you've got to sin bravely," says Houghton.) In the past 12 months it has:

- Put \$20 million into a joint venture with Genentech, the San Francisco-based gene-splicing company. Over the next five years, Corning's investment could double.

- Entered into a joint venture with the Kroger Co., the country's second-largest supermarket chain, to convert cheese whey, currently a major pollutant, into bakers' yeast, sweet syrup and a whey-protein powder that will be used in food processing.

- Acquired the enzyme division of chemical giant Rohm & Haas to add manufacturing capability to Corning's enzyme research facilities.

- Acquired K.C. Biological, Inc. to increase its blood serum, vaccine and biotechnological research.

- Acquired MetPath, which runs the world's largest clinical testing laboratory, for \$150 million in stock.

Since 1977, the first year that the health and sciences area was consolidated into one operating division, sales have risen from \$221 million to \$374 million, a gain of 69% in only five years. While health and sciences contributed only 12% of net income in 1977, it now kicks in 32%. The big gains come mainly from areas where Corning already had a presence—medical instruments and laboratory glassware. According to E. Martin Gibson, senior vice president in



Corning Chairman and CEO Amory Houghton Jr.
"If you want to win, you've got to sin bravely."

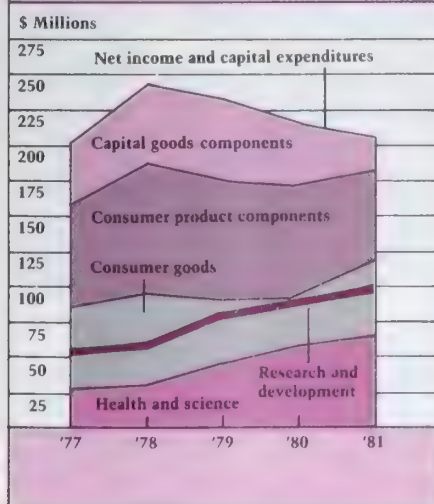
charge of the health and sciences area, Corning began its thrust into health and sciences when its traditional industrial laboratory glassware business began to stagnate: "When the labs business began to change to clinical labs, we had a problem because clinical labs don't use much glassware. So we began poking around for an opportunity, and we were already making a small pH meter. It occurred to us that one of the fastest-growing segments of the clinical labs business was blood pH. We just followed the market."

From pH meters it was only a short step to more sophisticated medical instruments, such as automated clinical analyzers that perform dozens of tests per blood sample and provide computer printouts of results; this in turn led to the 1980 acquisition of Gilford Instrument Laboratories, Inc., a highly respected instrumentation manufacturer. At the same time, it began a push into diagnostic chemicals; these thrusts in turn set up the MetPath purchase.

While developing its health and sciences lines, Corning began a laboratory exploration of basic biotechnical processes. To ensure that the research was not starved for funds at the division level, the company took that project and several others, including its long-standing research and development work in optical fiber waveguides, and placed them under the eye of the Houghton brothers and company president, Thomas MacAvoy. Research, in short, was too important to leave to the divisions alone. Listen

The price of change

Though income is stagnating, Corning earns more and more from health and sciences. But at some cost. R&D has almost doubled in five years.



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to a top Corning executive: "Biotechnology and fiber optics require corporate attention because you don't want to starve a division's growth potential while a new line of business is growing up, nor do you want to constrict the businesses of tomorrow for the sake of the ongoing operations. It's a balance you have to achieve." That's Richard Dulude, the senior vice president who oversees Corning's growth businesses at the corporate level.

While the company has been careful to insulate its future businesses from operating-level hassles, it has had to pay a substantial price. General corporate expenditures are almost 10% of sales, and R&D's \$91 million budget accounts for almost two-thirds of that expense. The payoff? James Houghton replies: "The payoffs will begin to show up in the next few years."

Of the two major businesses under corporate guidance, biotechnology should pay off at a much faster rate than optical waveguides. For one thing, Corning jumped into optical fiber production about five years in advance of the development of the market, and then licensed its technology to many of its potential competitors. Now, to recover its lead, Corning has spent millions developing a new manufacturing process that will outmode its original technology and drive the cost of making high-quality optical fiber down substantially. "This business has been like riding on the back of a tiger," says MacAvoy, "but what are you going to do? We have to spend."

Corning took a different approach to biotechnology. Starting with investigations made by Ralph Messing, a biochemist Corning hired in 1963, Corning has gone on to accumulate over 70 patents in the field of enzyme technology. They include a process for manufacturing high-fructose corn syrup (HFCS), which Corning licenses to CPC International. Coca-Cola's recent decision to permit up to a 50% HFCS substitution for sugar in its Coca-Cola soft drinks may be a wave of the future. While biotechnology is still a drain on the company, it won't be for long: It is expected to give Corning \$500 million in new business by 1991.

Says Amory Houghton: "The core of this company has been to be masters of technology, wherever our basic technology happens to lead us." He's determined his family's company will not go the way of so many other old American technology companies. The foresight is commendable; the results are still in the future. Sighs he: "It takes a lot of patience." ■

Scott Fetzer's Ralph Schey has a hot prospect. He wants to bring his door-to-door conglomerate into the world of home computers. Just a salesman's dream?

"It comes with the territory"

By Barbara Rudolph

RALPH SCHEY, chairman of Scott Fetzer, runs a \$650 million company that sells vacuum cleaners and encyclopedias door-to-door. Never glamorous, always profitable. Now, however, Schey envisions deploying some of his 40,000-person sales force to sell home computers.

Sound like the wishful refrains of a Willy Loman? Guess again—for Ralph Schey is no wide-eyed dreamer. He is a gray-haired, sober-looking Harvard M.B.A., and he is convinced that the same housewife who buys a \$550 Kirby vacuum or a World Book encyclopedia for her kids is a good prospect for a home computer and related edu-

cational software. Schey, of course, is not about to start making computers. But he would like to form a joint venture with a major manufacturer. Scott Fetzer has already had discussions with IBM and Apple.

The risks are obvious: The field is becoming crowded, discounting is common, and to succeed, Schey must develop a well-informed sales force that can speak a new lingo. Still, Schey sees the challenge as just another way of selling products to people in their homes—something Scott Fetzer does very well. Over the past five years its return on equity has averaged 18.4%. Six-month profits through May fell just 2% on a 4% drop in sales, while per-share earnings



Scott Fetzer's Ralph Schey
Is he knocking on the right door?

were up marginally for the period.

This strength in a recessionary economy is evidence that Schey is turning around his latest and largest acquisition. In 1978 Scott Fetzer acquired World Book from Field Enterprises for some \$100 million. At first glance it appeared that Schey was knocking on the wrong door: World Book's sales have remained flat in the past three years, while profits are down 23%.

That is mostly because of overseas operations. Schey spent \$15 million closing World Book's Japanese operations. The company was offering an expensive Japanese-English language program that was inferior to a competitive product marketed by Britannica. In addition, the affiliate was controlled by its salesmen, who often received unearned cash bonuses. "We were slow to respond to World Book," Schey explains. "Buying a direct sales business is sensitive, and we wanted to assure them that we weren't out to destroy the company."

The direct mail arm of World Book, meanwhile, has remained consistently profitable—with pretax margins of some 20%. "Scott Fetzer is just beginning to capitalize on that potential," says Carol Palmer, a portfolio manager at Provident Capital Management. Schey is also enthusiastic about using World Book's captive finance subsidiary for the financing of Kirby vacuum cleaners.

Two years ago Household Finance and Beneficial Finance stopped working with many of Kirby's 10,000-person sales force because of high interest rates. For the first time, the recession hurt, with 1980 profits down by over 30%. "Our salesperson would sign a contract Thursday, and Monday morning he'd get a call from his friendly finance company saying the deal was off," explains Schey.

Today, however, 25% of SF's vacuum cleaner sales are internally financed, and Schey is aiming for a level of 40%. To minimize the risk of default he holds distributors liable for whatever losses they incur.

That, like most of Schey's lines, is a cash-generating business, and Scott Fetzer now has \$85 million in the till. The company has been using its funds to buy in its own shares, which have traded close to \$30 for most of the past six years. That leads some Wall Streeters to speculate that Scott Fetzer may one day go private. Schey responds with a chuckle and refuses comment. He would rather think about new prospects like home computers—just another way to sell products to people in their homes. ■

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The Kansas City Southern railroad has 1,700 miles of strategic track and Irvine Hockaday. That's abundance.

Who needs merger?

By Lisa Gross

WITH THE MOST DIRECT ROUTE between the Kansas City rail gateway and the Gulf of Mexico, it goes without saying that the Kansas City Southern Lines railroad would fetch a premium price in the national railroad merger market. But because of Irvine Hockaday's achievements over the last 14 years, the KCS attracts more than a premium. It commands tribute.

One analyst suggests the Burlington Northern or the Santa Fe ask Hockaday—president of Kansas City Southern Industries—to name his price, add on 50% and buy the KCS as a bargain. It is not so much that BN or SF will need KCS' strategic 1,700 miles of track once the Union Pacific and Missouri Pacific merge. It is that Hockaday has increased rail earnings 400% in the last five years, to \$26.4 million on \$321 million revenues in 1981, and made the KCS one of the most profitable railroads in the nation.

First it had to be saved, then rebuilt. Less than a year after Hockaday joined KCS' legal department in 1968, he noticed accumulation in its stock. He responded quickly, persuading the board to institute staggered terms for directors, flushed the secret buyer—Lee National Corp., an investment and real estate firm—and exulted. Because Lee was an investment company, and KCS owned 54% of a mutual fund management company, University of Michigan-trained lawyer Hockaday "sued every Wall Street

brokerage firm that held stock for Lee and withheld dividends." He stopped the takeover cold, eventually buying out Lee's \$23 million of KCS in a trade for real estate in 1971. The next year, when he was 36, Hockaday was named president of KCS.

Then he learned that salvation was

ana. Hockaday "opted to bring the roadbed up to state of the art—even to err on the side of overdoing it," and authorized what became a \$341 million, ten-year upgrading program. Then he scrambled to pay for it by selling off diversifications in metal fabrication and financial services, but chiefly by husbanding KCS' capital.

When it came to negotiating shipping contracts over the newly upgraded rail, Hockaday and railroad President Tom Carter stood tough. Other railroads give coal shippers the option of buying or leasing unit coal trains. Not KCS. "We gave them prices for both, but we never intended to buy those unit trains," says Carter with a grin. If utilities want the coal, let them own the trains. That shrewd calculation has saved KCS \$225 million to date. With that sort of thinking, plus strict budget controls, KCS has been able to pay for renewing its line while keeping long-term debt manageable—46% of capital by last year. The renewal is still paying off. This year, KCS estimates unit coal train tonnages will increase 25%, raising coal revenues at least 75%, to about \$74 million.

Hockaday has brought KCS from desperation to a company with enviable options. He figures the coal surge will last another five years, based on current contracts. Adding to that, he counts on exporting soda ash from Wyoming and Montana through the Gulf—where KCS happens to own the only existing soda ash handling facility, at Port Arthur, Tex.

Then there's a new KCS innovation, the "Big D" cooperative carloading agreement with the Santa Fe at Dallas—a connection to or from the Southeast, West Coast and Central regions—which brought in \$47.5 million revenues in this year's first half. KCS' share is about 20%. Hockaday is seeking similar agreements with Burlington and Southern Pacific, trying to make the most of his small railroad's strategic position. "Before the UP/MoPac merger talks," he notes dryly, "trying to get the big guys to listen on things like the Big D connection was like trying to teach a duck to sprint."

An eventual merger? Hockaday, 46, doesn't blink. "We think we know best how to run *our* railroad," he says firmly. The evidence confirms it. ■



KCS President Irvine O. Hockaday

Thank you, but "we know best how to run our railroad."

easy, redemption harder. In 1972 Kansas City Southern Industries had \$139 million revenues, \$7 million earnings and a railroad badly in need of maintenance. The company had spent ten years debating how much to commit to the railroad and how much to diversification, and the roadbed reflected its waffling and tough competition from trucking. But Hockaday listened closely as his marketing people talked about the 20-year coal contracts Gulf States Utilities and Southwestern Electric Power were about to sign with mining companies in the Powder River Basin. The Burlington Northern could take that coal to Kansas City, but only KCS could take it on to the utilities in Texas and Louisi-



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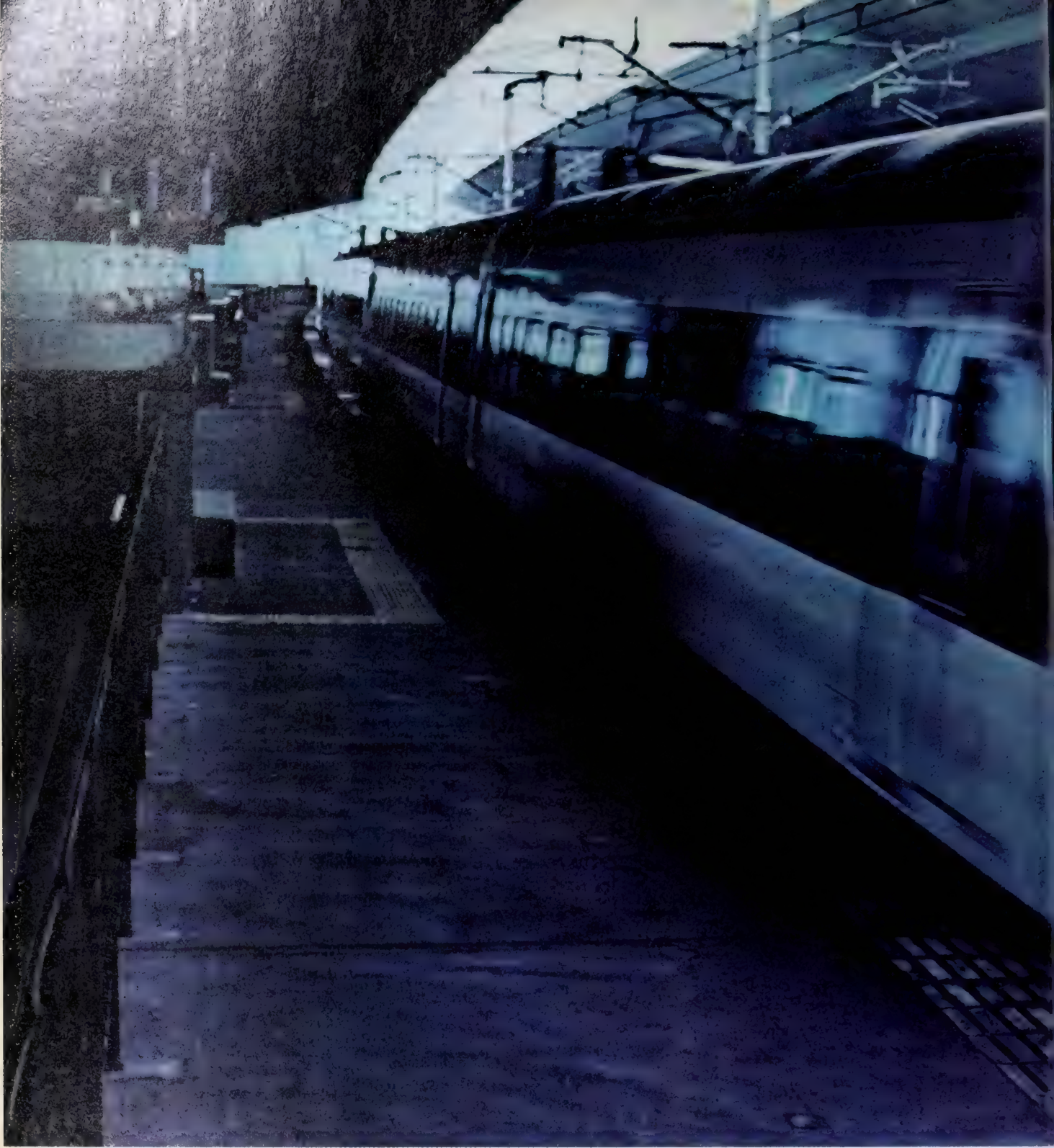
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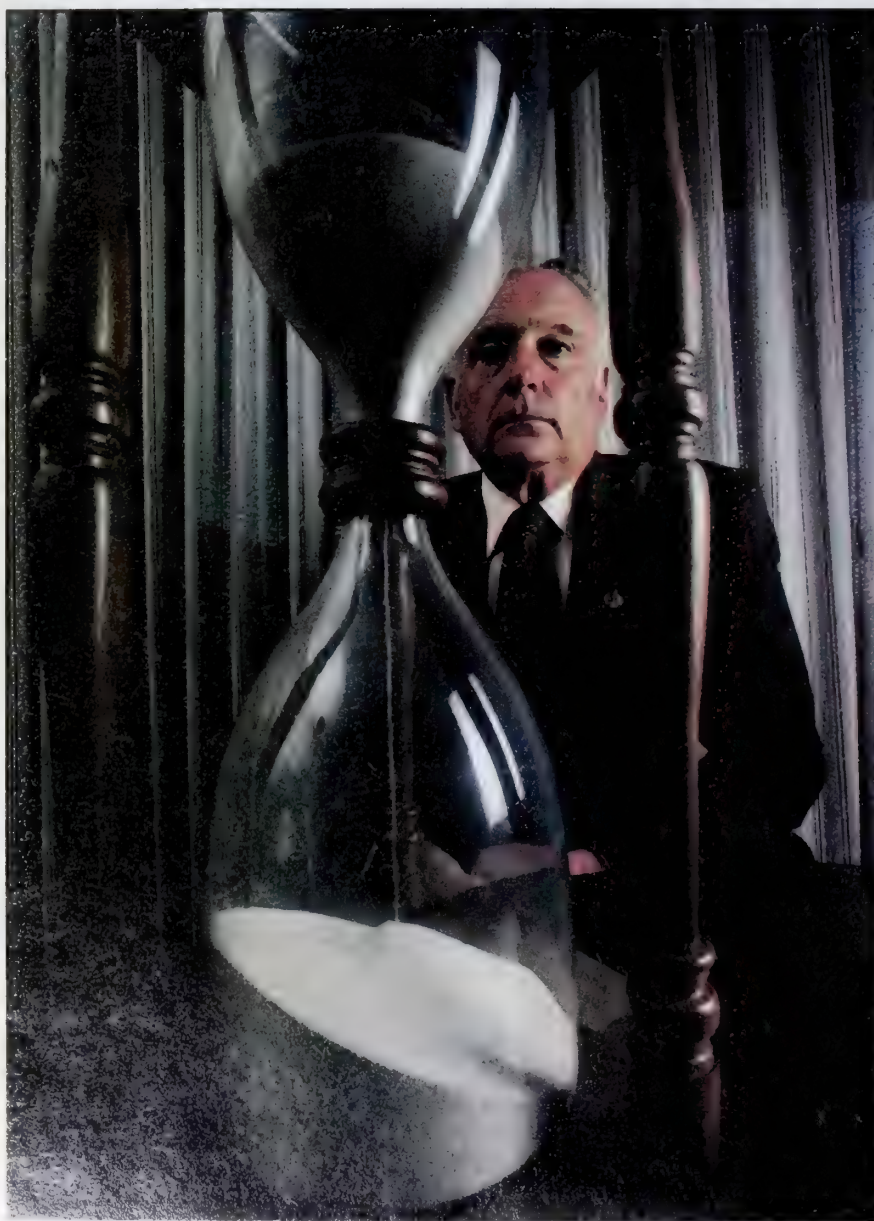
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Before the fall, Tom O'Rourke never paid much mind to budgeting and accounting in building his company.

A pause for reflection



Founder and Chairman Thomas O'Rourke
as time piled up, Tym ran out.

By Michael Cieply

GONE NOW IS THE salesman's brio, vanished—if temporarily—the infectious enthusiasm with which he built his company into one of the new technology's most promising entries. "You come from absolute euphoria to absolute depression," says Chairman Tom O'Rourke of Tymshare Inc., his voice a mere whisper. "Almost manic depressive."

After eight years of 30% compound growth, O'Rourke's \$289 million (revenues) computer services company has come to a fall. Second-quarter sales rose 3.4%. Earnings dropped by 25%. Once a glamour stock—trading 16 months ago at 57¾, with a P/E multiple of 28—Tymshare has plunged as low as 11⅞ on the New York Stock Exchange and lingered recently near a dismal 15.

O'Rourke, Tymshare's 59-year-old founder, shrewdly positioned his company across two booming markets (*FORBES*, July 6, 1981). Tymshare sells not only business software services—computer programs that allow comptrollers to keep track of daily cash flow, or railroads to locate freight cars instantly—but also a system that links customers' computers in a network. This networking business, growing at 50% a year, isn't likely to let up. As personal computers proliferate, users only become hungrier for Tymshare's added-value linkage, which provides access to huge data bases, with error-free transmission at a fraction of the cost of a comparable phone call.

So what brought this lofty performer to a fall? In a word, costs. Last year, cost of revenue and operating expenses soared by 40%, a full \$49 million, to swamp a healthy 23% revenue gain and produce a 16% earnings decline for Tymshare.

How could a company that sells cost-watching services to others so lose track of its own? Some of the trouble was external. In the summer of 1981 AT&T raised Tymshare's Longlines' charges 35%. Virtually all of Tymshare's products pass over leased Bell lines; yet the company had given customers fixed-term contracts that anticipated phone hikes of only 15%. "The FCC rolled over and played dead," complains O'Rourke. "And AT&T came marching through." The result: about \$8 million off Tymshare's bottom line. Last year electricity charges also rose 38%. Again Tymshare, a big user in its mainframe computing centers, was prevented from passing the additional cost on, and another million-plus fell

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Merci, M. Marx

If Tymshare Inc. makes a bundle with an inexpensive, easy-to-use computer terminal named Scanset, the Cupertino, Calif. company can thank a combination of Gallic pride and Socialist excess.

Scanset, built by the French military and communications manufacturer Matra, occupies less than a square foot of space and has controls so simple a computer illiterate can summon up the Dow Jones wire by pushing a single button. Yet it currently lists for \$649—about \$350 less than comparable equipment. Why? Partly because of a \$70 million French government R&D subsidy.

In 1979 President Valéry Giscard d'Estaing authorized a test program to replace phone books with tiny electronic directory terminals. Then Socialist successor François Mitterrand expanded the subsidies for France's laggard electronics industry, "democratizing" them along the way. He promised termi-

nals—free for the asking—to 30 million phone subscribers by the early 1990s. In return Matra and other participants agreed to find ways to export the technology.

Well, as luck would have it, Tymshare was Johnny-on-the-spot as a project adviser to Matra. Luck had nothing to do with it, says Tymshare Vice President Warren Prince. The company had begun selling its computer network capability in France in 1970. "Other companies went to England first, and then across the Channel. That hurt French pride," explains Prince.

So Tymshare got U.S. rights to the terminals, subsidy and all. Depending on supply, first-year sales should fall in the \$6 million-to-\$10 million range. And those 30 million Frenchmen? "Gee," grins Prince. "They might not get theirs for another ten years." Cash before ideology, in other words. How typically French.—M.C.

from the company's net.

But it took more to lay Tymshare low. The recession softened demand for some of its business-oriented time-sharing/software packages. Says O'Rourke: "Customers really decided to tighten back." Tymshare tried to do the same, since 46% of costs are people-related. But over the past 11 years O'Rourke—a onetime sales manager for General Electric—had concentrated on spurring his computer wizards to come up with new services and his salesmen to come up with more growth. Budgeting and financial reporting were left far behind. When they needed to, Tymshare's managers "couldn't get down into each line of business and look at its level of profitability," says Vincent Titolo, who came in as chief financial officer in October 1981. The cobbler's son was caught without shoes.

Now, says Titolo, to install mature financial controls is a "process measured in years, not months." Meanwhile, O'Rourke has begun to prune. Tymshare's hospital accounting system was sold this spring, and a moneylosing automatic teller operation closed.

And that would be just about the end of the story if Tymshare were merely another growth company fading to maturity. But its prospects, highlighted by the incredible growth of networking, remain bright. A

recent contract with Matra of France (see box) gives Tymshare exclusive U.S. distribution of a low-priced, powerful desk-top terminal that should boost revenues. And Tymnet, the independent network subsidiary, is growing vigorously enough to raise mild fears of a predatory buyout. Tymnet earned \$5.7 million pretax on \$42.5 million in noncompany revenues last year, and Tymshare executives see it producing more than \$20 million on \$135 million outside sales by 1984, to account for as much as 40% of the company's net. They reckon its value by the \$155 million that GTE spent to acquire and improve Telenet.

Yet, won't Baby Bell, with its network to start operations next year, swamp this field? O'Rourke is unimpressed. "I've been head-to-head with the big boys before," he says. He is gearing Tymnet for satellite transmission to bypass Longlines.

Clearly, the combative O'Rourke is unlikely to stay in the doldrums. But it wouldn't be a bad thing for Tymshare if he never forgets the chastening lesson he is learning this year. "People feel deceived," he muses. "The analysts ask, 'Why didn't you tell me three months ago about all these bad things?' Well," barks O'Rourke, his voice regaining its normal timbre, "if I knew them three months ago, they wouldn't have happened." ■

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Veteran metalman Ian MacGregor sees a decade of woe for steelmen—but probably a higher living standard for the rest of us.

A turnaround for steel? Forget it

By Rosemary Brady

ALTHOUGH THE CURRENT squabble over cheap European steel imports to the U.S. will probably be resolved soon, the industry's fundamental troubles worldwide will persist throughout the decade, says Ian MacGregor.

MacGregor, 69, a Scottish-born American, former chairman of Amax Inc., and a partner of Lazard Freres Co., arrived in Britain two years ago to put British Steel Corp.'s house in order. He has done remarkably well—scaling down capacity, trimming the troubled company's work force by over 40,000 and chopping losses in half, to \$640 million, last year.

MacGregor says the steel industry will see both "vast improvements in technology" and still more dramatic reductions in size over the next decade, as the industrial world shifts toward a service economy. He is not optimistic about the industry's near-term future—not in the U.S., not in Europe. Even Japan's future isn't secure. The nature of the steel industry has changed in more ways than one.

MacGregor: At the turn of the century, steel was a cheap substitute for wood. But today we're selling a sophisticated set of engineering materials. A piece of motor-car body sheet 25 years ago was just a plain piece of low-

carbon steel. Today there is a very sophisticated piece of metal-sheet steel, with physical characteristics that have been worked into it so that it is just as resistant as the piece twice as thick.

Or take a tin can. Today we make steel cans that are three-thousandths



Ian MacGregor of British Steel

A miner at \$2 an hour can't support many people.

of an inch thick and still they are strong enough to withstand the pressure generated by carbonated liquids. And I would say you are going to see vast changes and improvements in this decade. But the industry has to shrink because we're downsizing the use of all materials since everything is more expensive: We have to use them more efficiently.

Fine, except that Europe isn't downsizing its steel industry.

MacGregor: Europe's steel industry is oversized for the type of economy it has today. Take Luxembourg, whose market consumes 5% of its steel and has to export 95%. At one time they were close to good coke and coal. And they were close to indigenous low-grade iron ores that they could get into their blast furnaces at quite low cost. But the technology has changed, and low-grade iron ores are no longer competitive. And coal in Luxembourg is no longer low-cost, and the government has to find some way to subsidize its coal and coke production, as the Germans do for exactly the same reasons. Germany has to export a major portion of its production. Holland has to export a major proportion of its production. Belgium has to export about 70%. France exports 30% of production. These countries used to have, like Britain, overseas dependencies. And one of the commodities that went to their overseas dependencies was steel. These markets have long since disappeared. But the industry hasn't been expected [by European politicians] to take account of that.

Has Britain under Margaret Thatcher done better?

MacGregor: In Britain we have an industry that can produce about 15 million tons, whereas 10 years ago, 15 years ago, we had capacity to produce maybe up to 25 million tons. But Britain has the political will to do what has to be done. I don't see that to the same extent in other European countries.

What about the steel industry in the U.S.?

MacGregor: The U.S. has been reasonably insulated from competition. It wasn't until the Nixon price controls came off [in 1973] that U.S. Steel was operating for the first time in many years in a free market. And U.S. companies looked as if they were going to become fairly profitable. Then along came the environmentalists in the 1970s to clean up the steel industry. This resulted in the U.S. falling far behind Japan in regard to installing new equipment and new techniques because the capital wasn't available. Many of the techniques that are being so well applied by the Japanese are the result of U.S. re-

search and development.

And what about the Japanese?

MacGregor: People will move on in the steel industry just as the textile industry was rationalized. I remember short of 15 years ago there were heated arguments over the Japanese capturing U.S. textile business. Ten years later the Japanese were on the same side of the table as the Americans, talking about Taiwan, Singapore and places like Malaysia, Sri Lanka and Korea stealing their textile business. We'll see the same thing take place in the steel industry.

Which are the problem countries in the steel industry?

MacGregor: Brazil, South Africa—and Spain, which is a totally artificial steel industry. And there's a big upsurge in imports from countries behind the Iron Curtain, where price is what you have to sell the stuff at to generate foreign exchange.

What you are really saying about steel is that its restructuring is part of the transition to postindustrial society. What is this society going to be like?

MacGregor: Let me put it this way. We can produce our needs, our basic market needs, with a smaller percentage of our work force. And therefore the income these people produce is going to be spent on other things. And as we become more efficient and their incomes rise, they will buy increasing quantities of supporting materials and equipment.

The best example I can give you is from my old company Amax, mining coal in Indiana. Coal mining was done by stripping off the overcoating with a gigantic shovel, run by a man who was probably earning about \$50,000 a year. He started as a miner at \$2 an hour. As a miner at \$2 an hour he wasn't able to support very many people in the economy, but as a dragline operator at \$50,000 a year, he supports a hell of a lot of people and generates employment.

My dragline operator, as opposed to the miner, gets all his clothes cleaned at the dry cleaner. Previously his wife scrubbed them and hung them out on the back stoop. Now she goes to the cultural pursuits of the local women's institute. She didn't do that before. And he has two cars. When he started after World War II, he had a jalopy that he bought in a used-car stand in the Kentucky mountains for a hundred bucks, and he thought he was lucky. Because he was the eighth owner. Now he has a brand-new Cadillac. ■

WHAT WE HAVE LOVED FOR CENTURIES, YOU WILL LOVE IN SECONDS.

Since 1608 it's been the same old story. People love Old Bushmills the second they taste it.

Because Old Bushmills is smooth and mellow. A smoothness not easily come by.

The secret lies in an ancient process that goes back centuries to Ireland. To the village of Bushmills, and the oldest whiskey distillery in the world.

Here we pick the local barley ripe for harvest in nearby fields.

We draw clear water from the River Bush, water born for whiskey.

We commit these and other choice ingredients to our age-old triple distillation process.

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When it finally comes of age years later, only then is it worthy of our label. Old Bushmills.

But, like 18 generations before you, you'll know exactly what that means.

After your very first taste.

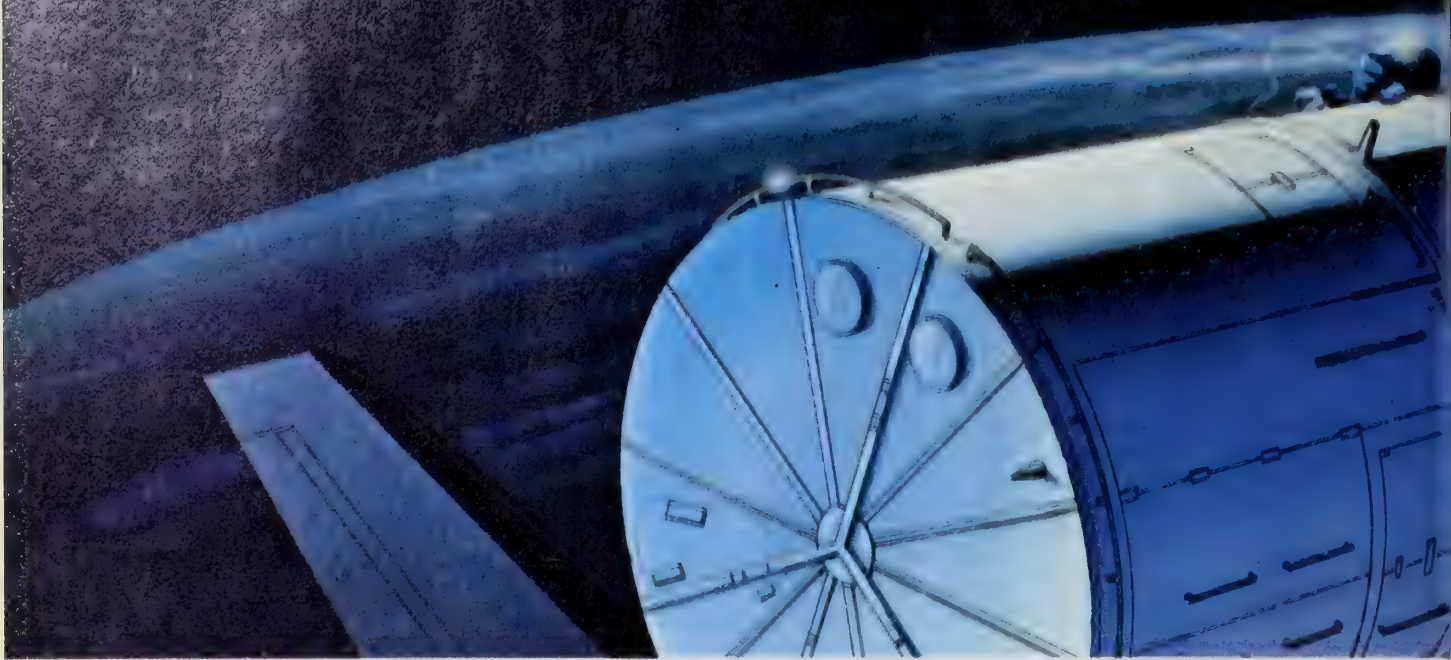
OLD BUSHMILLS

The taste you don't have to acquire.

A BLEND OF 100% IRISH WHISKIES, 80 PROOF PRODUCT OF IRELAND.
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Creating an 'eye' that will see

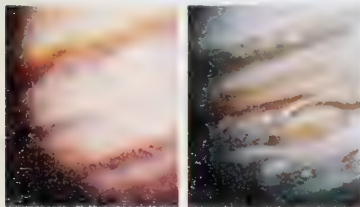


Lockheed knows how.

It's a project with promise that defies comprehension.

It's the NASA Space Telescope, managed by the Marshall Space Flight Center and being assembled and tested by Lockheed. It's scheduled for launch into 320-mile-high orbit by the Space Shuttle in 1985. And it will extend the observation reach of astronomers far out into the violent turmoil of space.

They'll look back about 14 billion light-years to where many think the universe edges lie. That's seven times farther than Earth-bound telescopes, hindered by atmospheric murk, have yet been able to see. And the telescope will find, lock onto, and study faint objects and masses only 1/50th as bright as any so far beheld.



Jupiter as seen from Earth (left) and through the clarity of outer space.

A masterpiece gets ready for action.

This astronomical observatory, the finest galactic telescope system ever built, will be a masterpiece of advanced technology in optics, instrumentation, communications, and pointing control.

It will be large—43 feet long, 14 feet in diameter, and weighing about 24,000 pounds. When carried aloft, it will occupy the entire cargo bay of NASA's big-airliner-size Space Shuttle.

Once the telescope is deployed, its solar panels (being built by the European Space Agency) will unroll like long window shades, facing the sun to convert light into battery-stored electric power. High-gain radio antennas also will stretch out into position to work via relay satellites

in communication to and from Earth.

And then the great instrument will go to work, its on-board computing and control systems already intricately programmed for the first viewing events.

The magnificent mirrors.

Capturing a wide spectrum of faint light (visible, red, blue, infrared, and ultraviolet) that has traveled billions of years is the job of the optical assembly (being built by Perkin-Elmer).

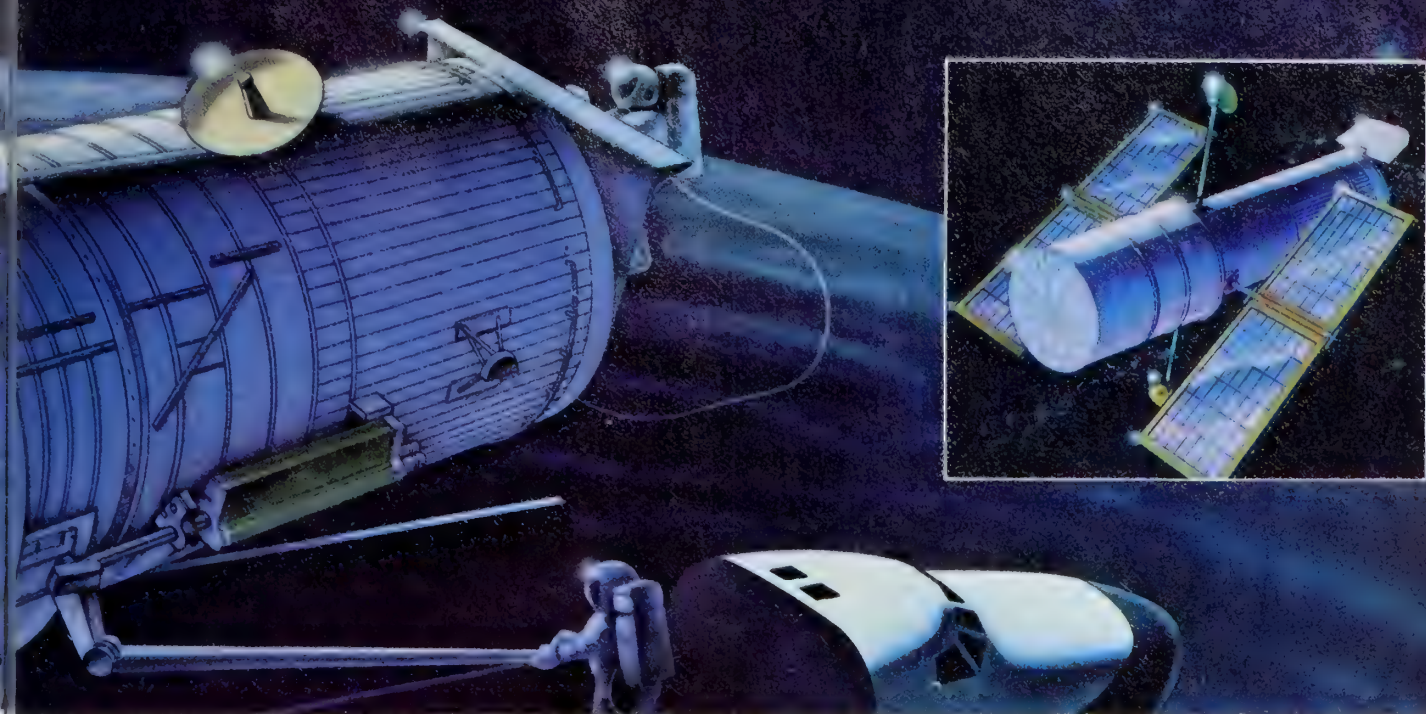


The extremely smooth, precisely shaped primary mirror surface will result from two full years of grinding and polishing.

A concave, foot-thick primary mirror, eight feet in diameter, will receive light coming in through the telescope's sun-shielded aperture. It will reflect and focus the light forward onto a smaller, facing mirror, which in turn will reflect the light back through a hole in the primary mirror's center. The final focal plane will be shared by a complex of guidance sensors and five scientific instruments... high-resolution cameras, spectrographs, and a photometer (being built by several institutions).

In their interference-free environment, the mirrors and instruments will help produce and transmit images with

the edges of the universe.



The Great Space Telescope will be tucked into orbit by the Space Shuttle, which will also serve as an occasional on-orbit service center.
Inset: The telescope deployed.

...ution 10 times greater than now possible with ground-
...d telescopes.

ing mankind's steadiest gaze.

...ose mirrors and instruments, however, couldn't do
...best without a unique Lockheed pointing control
...m (PCS) that positions and holds them precisely on
...t. And that is incorporated in the Lockheed Support
...ms Module, containing the interfacing, communica-
...s, thermal control, data management, and electric
...er systems.

...ing sensors and gyroscopic devices, the PCS will
...e and adjust the huge telescope into a programmed
...ing attitude. The Perkin-Elmer fine-guidance sensors
...fix upon a pair of known, bright 'guide stars,'
...ferences for finding the target.

...hen the target object is dead in the telescope's sight
...designated instruments will be turned on and other
...tions shut down. That's because the tiniest torque or
...on in a small motor or electric relay could jar the
...n vehicle off its lock-on point.

...d how precise is that lock-on? In angular measure-
...t, there are 1,296,000 arc-seconds in a circle. For
...aps as long as 20 hours at a time, the telescope will
...onto a target with a stability accuracy of just seven
...sandths of one arc-second in all directions.

...at stability is 100 times greater than any ever achieved
...r. It about equals standing in Boston and holding rifle
...s steady on a dime suspended over Washington, D.C.!

ping a beauty in shape.

...ckheed's innovative design will also let the telescope
...periodic 'house calls' for checkups and maintenance



In a neutral buoyancy tank, an astronaut goes through special training simulating the service tasks to be performed in space.

during its planned 15-year life. Armed with nothing more
than a 7/16" ratchet wrench and a Lockheed-devised
foot-anchoring tool, a Space Shuttle astronaut will be able
to open access doors, make inspections, replace modular
units, and see to the telescope's well-being. When
necessary, the Shuttle will retrieve the telescope and
return it temporarily to Earth for general servicing.

The world of science is waiting expectantly. The wonders
yet to be discovered are waiting, too. The Space Telescope
will arrange a meeting.

When it comes to bringing all this together—testing,
refining, integrating all the critical elements of a miracu-
lous scientific breakthrough—Lockheed knows how.

For more information about Lockheed, write for the
1981 Annual Report Highlights to A.C. Melrose,
Lockheed Corporation, P.O. Box 551, Burbank, CA 91520.

 **Lockheed**

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Many Hyatt Hotels have a Regency Club in a separate part of the hotel for those guests whose requirements of travel comfort and personal service exceed even the Hyatt standard of lodging excellence. Complimentary hors d'oeuvres and beverages are available throughout the day and there is a special Concierge for Regency Club guests.

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Cambridge	Lake Tahoe	San Jose
Chicago Area	Lexington	Seattle
Illinois Center	Los Angeles Area	Texas
O'Hare Int'l	Broadway Plaza	Austin
Oak Brook	Wilshire	Dallas
Columbus	Louisville	Fort Worth
Dearborn	Milwaukee	Houston
Flint	Minneapolis	San Antonio
Florida	Nashville	Wash., D.C. Area
Miami	New Orleans	Capitol Hill
Palm Beaches	New York	Crystal City
Tampa	Pittsburgh	Winston-Salem
Greenville	Richmond	
Hawaii	Savannah	Canada
Kailima	San Francisco Area	Montreal
Maui	Embarcadere Cnt.	Vancouver



ultimate


REGENCY CLUB
at HYATT HOTELS

The Forbes Four Hundred

An inquiry into the holders of great wealth
in America, with notes on the sources of
that wealth, the careers of the people who
control it and its effect on their lives.



The Forbes Four Hundred

by **Harold Seneker**
with **Jonathan Greenberg**
and **John Dorfman**

AMERICANS ARE AMBIVALENT about wealth. They admire it and desire it, yet resent it and find it vaguely un-American. During the Age of the Moguls, roughly from the Civil War to the Great Depression, the very rich came out of the closet and visibly enjoyed their wealth. But now, by and large, they have gone underground with it. Drawing up this list of America's richest people was, therefore, a formidable task. A majority of the people on it would have preferred not to have been listed.

This is a compilation of the Big Rich—not of jetsetters or media celebrities, who do indeed celebrate their well-being. The Forbes Four Hundred are solidly rich, rich enough to make a difference.

A family with \$10 million or so—not big wealth by today's standards—can readily live, and in fact many do live, as well as most of the country's centimillionaires. You can't tell a person's wealth by his lifestyle. So, it is not easy to find out exactly who the Big Rich are, let alone how much they have.

You don't need fabulous wealth to live very, very well these days. How many Rolls-Royces (\$115,000 each) or yachts (\$500,000 and up) do you really need or even *want*, after all? A year's worth of very fine dinners for two at gourmet restaurants costs about \$50,000—the income from \$400,000 in tax-exempt bonds, hardly great wealth. And your very own transatlantic jet seems superfluous when you can hop on the Concorde (\$1,800, one way, New York to Paris).

So what do the *really* rich do with their money? Some they give away: Philanthropy is "in" among the very wealthy. But most of it is reinvested, either in their existing businesses, or stocks or bonds, or in new ventures. The main thing they do, then, is create jobs and ever more of the goods and services needed to sustain the average man's lifestyle, all in the search for profit, or sense of achievement by their own standards, or sense

of family duty to the fortune. In a purely moral sense, then, conspicuous consumption may be "obscene," but great wealth is not.

Vast wealth, secretly envied where not openly admired, is still the alltime conscious or unconscious dream of many Americans—after immortality. And in the absence of knowledge, myths have naturally proliferated. Some are benign, like the hit movie, *Arthur*. But many are poisoned with political paranoia, or at least twisted for use by politicians hunting more tax dollars to spend. The accumulation of some 40 years of such malign myth-making has had consequences in the nation's laws and fiscal policy we are all still living with.

So FORBES is inaugurating The Forbes Four Hundred. In form, a periodic scorecard of who is really rich in this country—an intriguing enough inquiry anyway—but it will go beyond that: It will attempt to delve into the nature of wealth and the wealthy, into how they got that way as well as who they are, and into how they conduct their lives.

Of necessity, the list is tentative rather than authoritative: a well-informed estimate, not an audited report. But if the details are not precise, we believe the overall effect is. Great Wealth in America as it really is. An honest photograph, even if taken in a mist.



The Rules of the Chase

"If you know exactly how rich you are," observed the late John Paul Getty, "you're not really rich." Wealth, it turns out, is not a simple concept. Getty meant the fortunes of the Big Rich are normally concentrated in large businesses whose value cannot be exactly calculated unless they are actually sold. So wealth is difficult enough to guess-timate even with the cooperation of its owner or owners, and most of our subjects did *not* cooperate.

Nor is it by any means always clear exactly who *owns* a great fortune: It is often parked at least partly in the names of the immediate family or concealed in private investment companies or, more difficult, in trusts, where the separate elements of ownership (control of principal, receipt of income, power to name heirs, etc.) are deliberately spread among different people to accord with the inheritance tax laws.

To arrive at coherent estimates of wealth in all this welter, we adopted a number of rules, mostly based on common sense:

- Blocks of publicly traded stocks are priced at the market in mid-August for consistency.

- Privately held companies are valued according to estimated earnings, where estimable, based on multiples then prevailing for publicly traded companies in similar businesses.

- Lacking reasonable earnings estimates, we adopted rule-of-thumb conventions widely used within respective industries, particularly in evaluating the media: Newspapers, for instance, can be valued at \$500 and up per subscriber, or 10 to 15 times earnings, or 1.0 to 1.4 times revenues, in each case subtracting a generous allowance for probable liabilities. TV stations were evaluated for us by reputable media brokers.

- In some cases, we had to settle for estimates of book value, particularly among private oil producers, where we often did not venture beyond putting a fair estimate on their oil reserves. In one or two cases (e.g., J.R. Simplot) we were forced to work from estimates published by the general press; they are treated very conservatively, since they are often unreliable.

In fact, in every case we went out of our way to be ultraconservative; we wanted to be sure everyone on the 400 belongs on the 400.

Then came trusts. We had to proceed on almost a case-by-case basis, applying common sense. Most trusts are plainly set up to carry out a normal pattern of inheritance (to wives or husbands, or offspring) and exist mainly to minimize inheritance taxes. These trusts we generally attributed to the person who created the wealth, where still alive and in control, or else to the principal controlling family member where he is not.

We gave similar treatment to certain special arrangements which are aimed at keeping control of a valuable asset in the family (e.g., the Cargills, where, reportedly, company shares may only be sold or bequeathed to family members; the present holders are credited with full value, though their shares are not freely marketable).

On the other hand, spendthrift trusts, meant to keep control of a fortune *out* of the hands of beneficiaries, were not credited to the

beneficiaries. The estimated trust income was, while we usually looked for controlling family members when seeking to assign the principal.

Irrevocable charitable trusts were not counted in at all, even when, as in the case of the Pews, they serve to retain ultimate control over the family company; we decided such wealth is really working for charity now. Foundations, of course, were not counted either, though occasionally noted.

There was one last set of problems to deal with. Generally, we considered wealth in the name of a spouse or child as part of the still-active principal's wealth, especially when family ties are manifestly close and they all share interests in an ongoing business. Exceptions: where a fortune is so vast that another family member's share qualifies him or her for 400 status (as in An Wang and his wife, Lorraine); or where family and business ties are broken or at least noticeably frayed. So Joseph Meyerhoff is here as patriarch-in-charge while Henry Ford II is not. Ford is retired and his children are scattered, apparently maintaining their own inheritances, and are born of wives he has since divorced. (He himself had only \$80 million we could clearly identify, mainly depressed Ford stock and his 4% interest in California's Irvine Ranch.) Meyerhoff, on the other hand, still comes to the office, and his son Harvey, a big shareholder now, is in the business. One major exception is not as chauvinist as it looks: Mary Kay Cosmetics. The founder-mother Mary Kay Ash (formerly Rogers) is not listed, the president-son and lately larger shareholder Richard Rogers is: Both stoutly maintain that he is absolutely in charge of the whole show and has been for a long time. Far be it from us to come between a son and his mother.

The Forbes Four Hundred

\$1 Billion And Up

Daniel Keith Ludwig

Shipping. NYC. 85. Twice divorced, no children. In continual pain 50 years from back injury. In 1930s used contracts to ship Seven Sisters oil as collateral for loans to build the ships; in WWII built substantial U.S. tanker fleet, got it back free after V-J Day; later built first super-tankers in low-cost Japanese ship-



Ludwig

yards. Now downpedaling ships, buying savings and loans. Vast U.S. real estate holdings. Sank probably unrecoverable \$1 billion into Amazon jungle pulp empire; estimated net worth still above \$2 billion. Avoids press.

Gordon Peter Getty

Inheritance. San Francisco. 48. Married, 4 sons. Fourth son of billionaire John Paul Getty. Served several brief stints with father's companies: Getty Oil, Spartan Aircraft. Lives quietly; amateur composer, pianist, patron of arts. Only relative with



Getty

father at his death 1976 (2 half brothers deceased, Gordon's elder brother estranged). Now sole trustee, 33% beneficiary Sarah Getty Trust

(named for his late grandmother): includes 31.8 million shares Getty Oil worth \$1.4 billion, with annual dividend of \$83 million.

Perry Richardson Bass

Sid Richardson Bass

Father and son. Oil, investments. Ft. Worth. Legendary oilman Sid Richardson (d. 1959) left bulk of estate to foundation, rest to nephew Perry, whose mother lent Sid \$40 to start in oilfields during Depression. Perry: 67. Married, 4 sons. Built Richardson legacy into second-largest private oil empire (after Hunts), with stakes in nearly every large U.S. field. Principal hobby: sailing. Helped design the PT boat WWII; navigated Ted Turner's World Open championship win 1972. Sid, 39, runs much of business. Invested in



Sid Bass

venture capital firms (\$8 million in Idanta Partners now \$200 million); also hotels, real estate, vast stock portfolio. Personal style: more eastern intellectual than Texas good ol' boy. Together, father and son control family fortune in excess of \$2 billion (younger sons: Robert also works in business; Edward has ceramics shop in Santa Fe; Lee at Wharton). All live quietly: "When you're where they are, who do you want to impress?"

Margaret Hunt Hill

Inheritance. Dallas. 67. Married, 3 children. Eldest child of H.L. Hunt; shares in trusts, other properties inherited by Hunt's "first family." Acts as informal "chairman of the board" at family business meetings. Avoids press. Conservative investor: Stayed clear of brothers' silver play, other speculations. Reportedly

insisted "the boys" use additional personal assets, secure principal family holding, Placid Oil, after Spring 1980 silver debacle. She denies this. Her net worth, despite her denials, probably exceeds \$1 billion.

Caroline Hunt Schoellkopf

Inheritance. Dallas. 59. Divorced, remarried, 4 sons, 1 daughter by first marriage. Daughter of legendary oilman H.L. Hunt; shares in 20 trusts, other properties with rest of Hunt's "first family." Stayed clear of silver play, other speculations of



Schoellkopf

brother Bunker. Long busy with church affairs, raising children, becoming amateur cordon bleu chef. Lately investing with 3 sons in superluxury hotels projected at \$350 million over a 5-year period. Already spent in excess of \$100 million on Dallas' Mansion on Turtle Creek, Hotel BelAir in Beverly Hills, and the Remington, Post Oak Park, Houston. Says she is the sole beneficiary of trust with net worth in excess of \$200 million. Including all trusts, wealth may approximate \$1 billion.

Philip Anschutz

Oil. Denver. 43. Married, 3 children. Father Fred built contract drilling company, oil and gas interests all over Midwest. Philip took over 1961, sold drilling rigs, became



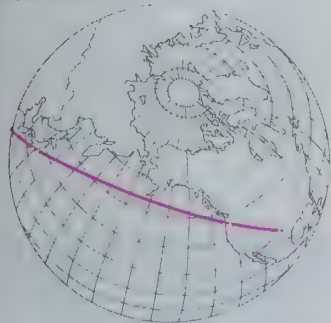
Anschutz and wife Nancy

aggressive buyer oil leases. Also minerals, Denver real estate. Recently sold half his interest in "ele-



From the eaves of the most humble Thai dwellings, pots of radiant blossoms bid welcome. A custom as old as the culture itself, is the Thai's consuming passion for flowers. Their essence, delicate yet flourishing, colorful yet refined reflects the very personality of the people.

To revere, from childhood, the tiniest flower is to instinctively appreciate the subtle needs of the business traveler. The tranquility provided by your own separate cabin and generously proportioned seats. Your private bar, should serving yourself be your pleasure. Relevant periodicals and newspapers. Preferential entrées. Attentive, sensitive service. Peace and quiet. In a surrounding of vivid murals replicating ancient temple art. And orchids hand-picked in Thailand.



Royal Orchid Service, Business Class, takes a straight line from Dallas/Ft. Worth to Seattle, Tokyo, Bangkok. Shortening your flight by more than a thousand miles. (While enhancing your well-being.)



A Flight of Graciousness.



The Forbes Four Hundred

phant" oilfield, Anschutz Ranch Field for reported \$500 million. Est. net worth: over \$1 billion.

Forrest Mars Jr.

M&M/Mars Inc. Las Vegas and McLean, Va. 78. Twice widowed, 2 sons, daughter. Runs world's largest confectioner. Secretive: "the Howard Hughes of candy." Raised by divorced mother in Seattle; father financed British candy venture to keep him distant. Took over the U.S. company anyway, at 60, leading top brass in prayer at first business meeting. "I pray for Milky Way, I pray for Snickers. . . ." Obsessed with plant cleanliness. Estimated net worth: over \$1 billion.

Lamar Hunt

Inheritance, oil. Dallas. 50. Divorced, remarried, 4 children. Youngest of H.L. Hunt's "first family." Shares fully in Hunt "first family" oil trusts. Personal business interests mainly sports: founded



Lamar Hunt

American Football League; owns Kansas City Chiefs, interests in other clubs (but lost Dallas Cowboys to archrival Clint Murchison); also World Championship Tennis, Inc. Lives frugally, stays out of limelight. Caught up in brother Bunker's Silver Bubble; despite taking on his share of \$1.1 billion silver bailout loan, decline in value of oil properties, his denials, probably still worth about \$1 billion.

William Herbert Hunt

Inheritance, oil. Dallas. 53. Married, 5 children. Third son in H.L. Hunt's "first family." Principal manager family's vast oil empire (Penrod Drilling, Hunt Energy, etc.), also real estate. Inherited father's contempt for high living: house in upper-middle-class neighborhood, 10-

year-old Mercedes, during 1979 energy crisis was spotted in 2-hour gasoline line "waiting patiently with his wife and dog." Drawn into brother Bunker's Silver Bubble. Despite share of \$1.1 billion silver bail-



Herbert Hunt

out loan, decline in value of gas and oil properties, probably still worth in excess of \$1 billion.

Nelson Bunker Hunt

Inheritance, oil. Dallas. 56. Married, 4 children. Second son of H.L. Hunt. Shares massive Hunt "first family" oil trusts; personal interests center on agriculture, commodities. Vast farm, ranch, timberlands. World-class commodities speculator: epicenter of 1980 Silver Bubble; apparently dreamed of monetizing silver; also led massive Hunt position in soybeans 1977. Lives well but not extravagantly; worries about weight



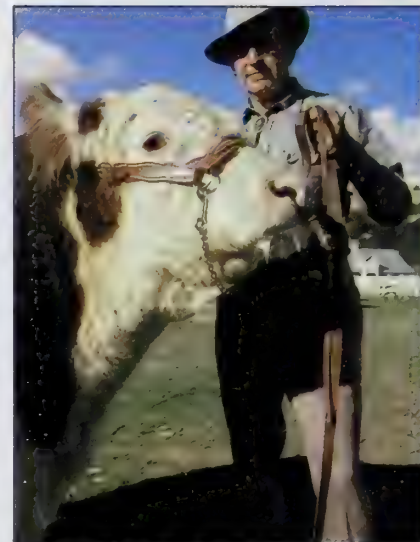
Nelson Bunker Hunt

(195 lbs.); longtime John Bircher. Despite large share in \$1.1 billion silver bailout loan arranged by Federal Reserve, price decline in oil properties, etc., net worth probably still about \$1 billion.

David Packard

Hewlett-Packard Co. Los Altos Hills, Calif. 70. Married, 4 children. Started with \$538 in small garage 1939, made electronic equipment. Packard supplied business/manage-

ment knowhow, Hewlett, engineering talent; nearby Stanford, leading-edge technological setting. First break: sold 8 audio-oscillators for sound track of Disney's *Fantasia*. Emphasized high tech, premium quality and price. Stayed in measuring and control instruments until pushed into calculators, small computers, EDP products in late Sixties



Packard

by customer needs. Now the third-largest minicomputer company. Packard's shares worth just over \$1 billion.

Marvin Davis

Oil. Denver & various. 56. Married, 5 children. Father from Manhattan garment district, got into oil & gas after WWII. Marvin took over 1947, bought many cheap oil leases in out-of-favor Rockies, became one of big-



Davis and wife Barbara

gest U.S. wildcatters. Hit 15% successful drilling rate, enough to finance his Denver skyscrapers, shopping center, bank; also over \$75 million cash for 20th Century-Fox deal. Lives lavishly. Always doing business; burns out geologists, but best ones leave rich. Retinue of bodyguards, ex-FBI agents for security. Estimated net worth: just might be \$1 billion.

The Forbes Four Hundred

\$500 Million and Up

David Rockefeller

Inheritance, real estate. NYC and Tarrytown, N.Y. 67. Married, 6 children. Youngest child John Davison Rockefeller Jr. Began as asst. mgr. in uncle's bank 1946; senior v.p. 1952; vice chairman 1957; CEO in 1969. Became globetrotting "banker-statesman." Retired April 1981 to run family foundation, Rockefeller Center, Inc. Correct, reserved: "No one, and I mean *no one*, calls David Rockefeller 'Rocky.'" Estimated net worth: from trusts, vast real estate holdings (25% Embarcadero Center, S.F.; 33% L'Enfant Plaza, D.C.; etc.) may approach \$1 billion.

Walter H. Annenberg

Publisher. Wynnewood, Penna. 74. Divorced, remarried; daughter, deceased son by first wife. Inherited (with 7 sisters, but he has voting stock) Triangle Publications from multimillionaire father Moses Annenberg 1942. Founded *TV Guide* 1953. Close friend of, ambassador to Great Britain for, Richard Nixon. Dismantling empire for vast philanthropies, but Triangle still worth about \$800 million.

Stephen Davidson Bechtel Jr.

Stephen Davidson Bechtel Jr.

Engineering and construction. Oakland, Calif. 81, 57. Father: married, 2 children; son: married, 5 children. Sr. built family railroad construction company from moderate size to global giant building dams, pipelines, refineries. Jr. took over 1960, expanded nuclear plant construction and added airports. World revenues this year: \$8.3 billion. Profits may approximate \$150 million. Also owns part of 2 large investment companies: Bechtel Investments, Sequoia Ventures. Estimated net worth: Sr., approx. \$750 million; Jr., around \$200 million.

Harry Brakmann Helmsley

Real estate. 72. NYC. Divorced, remarried, no children. Sank life savings into a building in 1938; today controls over \$5 billion worth, in-

cluding Empire State Building. (See also Laurence Wien.) Has many equity partners; his percentages have increased on later projects. Second wife, Leona, heads Helmsley Hotels. As commercial landlord, now moving into Miami, San Francisco, Houston, other cities. Swims daily, likes ballroom dancing. Estimated net worth: near \$750 million.

Sam W. Walton

Wal-Mart Stores. Bentonville, Ark. 64. Married, 4 children. Lost his store lease 1950, settled in Bentonville, where he could get a Ben Franklin variety store. Had 16 by 1962; opened a discount store experimentally. Had 30 Wal-Marts in 1970, went public. Now 500 in 13-state area mostly in Sunbelt. With family, owns 38%, worth \$690 million; his directly owned shares are worth \$138 million. Drives beat-up Chevrolet with dog-teeth marks on steering wheel.

William R. Hewlett

Electronics. Palo Alto, Calif. 69. Widower, remarried; 5 children from first marriage, second wife has 5. Cofounded California-based computer firm Hewlett-Packard 1939 in 1-car garage; invented audio-oscillator. Private person, many-faceted. (Historian Arnold Toynbee: "Amazing. He knows more history than half the historians in the world.") Outdoorsman. His stock worth close to \$650 million.

Edward J. DeBartolo

Shopping centers. Youngstown, Ohio. 64. Married, 1 son, 1 daughter. Grew up with Italian-born stepfather, a painting contractor. Around



1950 plunged on untested idea most banks feared to lend on: suburban shopping centers. Plunged again on giant regional malls 1960s. Also owns banks, racetracks and sports teams, but lets Eddie Jr. own pro football 49ers. Estimated net worth: well over \$500 million.

Samuel I. Newhouse Jr.

Donald Newhouse

Newspapers, TV. NYC. 54, 52. Both married, total of 6 children. Samuel I. Sr., born Lower East Side Manhattan tenement of poor immigrants, turned around Bayonne (N.J.) *Times* as teenager, went on to build one of the great newspaper empires. Sons Si and Don control all voting shares; several other Newhouses on payroll. Bought Random House 1980; selling the TV stations, buying cable. Including nonvoting stock, each brother's share easily exceeds \$600 million.

Haroldson Lafayette (Hassie) Hunt III

Inheritance. Dallas. 65. Unmarried, no children. Eldest son of, closest look-alike to, H.L. Hunt; was good "oil finder." One of few times father wept publicly: admitting Hassie was mentally ill. But his trusts, controlled by brothers and sisters, continue; net worth believed to exceed \$600 million.

William Walter Caruth Jr.

Real estate. Dallas. 70. Married, 4 children. Grandfather opened general store 1849, used earnings to buy land, amassed cotton plantation. Father increased acreage to near 30,000, sank into debt. Turned over to Will Jr. 1939, who has been developing it ever since. Now known as North Dallas. Likes to sell land, keep 50% of cash flow. Also Florida real estate. Estimated net worth: approaching \$600 million, most in names of children, 2 nephews since 1940s. Principal sorrow: All 6 inheritors uninterested in managing fortune or unable to.

Cyril Wagner Jr.

Jack Brown

Partners. Oil. Midland, Tex. Wagner: 48. Divorced, remarried; 5 children. Brown: 56. Married, 3 children. Set up Wagner & Brown Oil



"We build quality into our products at our expense... not yours."

Donald J. Shapiro
Vice President, Manufacturing
Exxon Office Systems

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The Forbes Four Hundred

Properties 1962, built up prodigious oil production. Now have "staggering" cash flow, modest debt; set up Canyon, Inc. to diversify out of oil (aeronautics, plastics, etc.). Share equally business empire worth \$1.1 billion.

Henry Lea Hillman

Industrialist. Pittsburgh. 63. Married, 4 children. Son of Pittsburgh's last "robber baron," J.H. Hillman Jr., one of few to stand up to the Mellons in their heyday. Joined father's business 1946. Inherited 1959. Lately moved away from investment strategy of taking minority positions toward acquiring 100% and taking private. Through The Hillman Co., Pittsburgh National, other holdings, net worth probably well exceeds \$500 million.

Paul Mellon

Inheritance. Upperville, Va. 75. Remarried widower, 2 children by first marriage. Inherited \$250 million from legendary financier father, Andrew Mellon (d. 1937). Interests not business: art, English literature, fox hunting and Thoroughbreds. Also philanthropy: \$100 million British art collection to Yale; East Wing of National Gallery (founded by father), Washington, D.C. Estimated net worth: over \$500 million.

Roy H. Cullen

Margaret Cullen Marshall

Wilhelmina Cullen Robertson

Isaac Arnold Jr.

Inheritance, oil. Houston. Grandsons and daughters of Hugh Roy Cullen (d. 1957), legendary wildcatter, hit famed Tom O'Connor field early 1930s (500 million bbl.). Favored strategy: Drill abandoned dry holes deeper, find the oil. Founded Quintana Petroleum 1932. Now run by 2 grandsons, 2 sons-in-law. Each is a v.p., no president. Roy: 52. Married, 6 children. Margaret: 61. Married, 2 sons. Isaac: 46. Married, 3 children. Wilhelmina: 59. Married, 5 children. Husband Corbin leader of family. Share control of Quintana, family trusts; sons of another sister have passive \$13 million/year

interest, sued 1979 for larger share of fortune. Quintana's estimated oil reserves worth approximately \$2 billion.

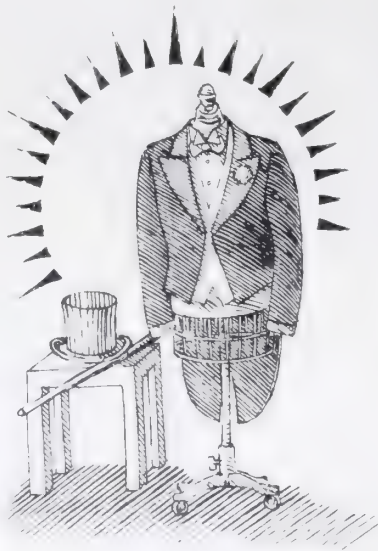
A. Alfred Taubman

Shopping centers. Bloomfield Hills, Mich. and Palm Beach, Fla. 57. Divorced, remarried, 3 children. Taubman was a small-scale muddy boots builder early 1950s; specialized in shopping centers, moved into California market 1957. Led Irvine Ranch buyout 1977, owns 15% [see *Athalie (Joan) Irvine Smith*]. "Taubman creates a retail energy. The atmosphere is pulling on your pocket-book." Estimated net worth: \$525 million.

Barbara Cox Anthony

Anne Cox Chambers

Sisters. Cox Enterprises. Honolulu, Atlanta. Barbara (Mrs. Garner Anthony): Honolulu. 59. Two children. Anne (Mrs. Anne Cox Chambers): Atlanta. 62. Three children. Inherited 97% Cox Enterprises, which owns the *Atlanta Constitution*, et al., 44% Cox Broadcasting following deaths of father (1957), brother James Jr. (1974). Barbara's husband, Garner Anthony, 53, is chairman; she runs ranching interests Hawaii, Texas, Australia. Anne, noted Atlanta hostess, served as ambassador to Belgium 1977-81. Joint net worth probably exceeds \$1 billion.



Leonard Norman Stern

Hartz Mountain Industries. NYC. 44. Married, 3 children. Father Max emigrated from Bavaria's Hartz Mountains with 2,100 canaries; started pet business 1926. Son Leonard peddled hard as boy, and effectively: "A salesman should be able to sell horse apples. You just have to con the sonofabitch." Leonard took over the business in the 1960s, sold so hard ran into anti-trust trouble; settled out of court 1979 for many millions. Moved heavily into New Jersey real estate. His estimated net worth: in excess of \$500 million.

Richard Mellon Scaife

Inheritance, investments. Pittsburgh. 49. Married, 2 children. Grandson of Richard B. Mellon; inherited \$200+ million 1965. Built up chain of smallish newspapers in Pennsylvania and California. Published *Pittsburgher* magazine, folded 1981. Heavy contributor to conservative causes (\$500,000 to Milton Friedman, \$1 million to Nixon's CRP, etc.). Between personal fortune and trusts, estimated net worth exceeds \$500 million; vigorously denied by him.

Robert C. Anderson

Oil, land. Roswell, N.M. 65. Married, 7 children. Father first banker to lend on oil in ground; Robert borrowed \$50,000 1941, invested in "teapot" refinery. After that small start, drilled 200 dry holes until big strike 1957; bought (\$4 million) and sold (\$25 million) Wilshire Oil; likes Western ranchland and bought 1.1 million acres (an area bigger than Rhode Island) in N.M., Tex., Colo. Then sold refinery to Arco 1962, went on board. Appalled: top management not oilmen; became CEO in 1965. Estimated net worth: about \$500 million.

Curtis L. Carlson

Entrepreneur. Minneapolis. 68. Married, 2 daughters. Began with Gold Bond trading stamps (1952 revenues \$2.4 million), now trades businesses like Radisson Hotels through \$2 billion (revenues) Carlson Cos. of which trading stamps are 10% of revenues. Loner; 100% self-financed. Tightfisted workaholic: "What you do on Saturdays is what puts you ahead of the competition." Estimated net worth: about \$500 million.

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Bill Marriott

President, Marriott Corp.



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Jack Kent Cooke

Publishing, cable TV, real estate, sports. Upperville, Va. 70. Divorced, remarried 1980; 2 children by first marriage. From Canada, naturalized 1960 by act of Congress. Sold encyclopedias door-to-door; then sold soap to stores; then sold radio stations, newspapers. Has owned several sports teams (lately, football Redskins), 11% Teleprompter (sold for \$76 million); owns Chrysler building (NYC), etc. "Retirement should be shunned like leprosy. I tried it once." Estimated net worth: at least \$500 million.

Frammell Crow

Real estate. Dallas. 67. Married, 6 children. Before WWII, a CPA. Built warehouse in Dallas 1948. "After that, we just kept building and building." Operates through "partnerships" (he maintains control) with local managers, others, 1 for each project. Narrowly averted disaster in 1974 real estate crunch. Total assets now some \$3.5 billion nationwide. Crow's estimated net worth: about \$500 million.

Kenneth W. Ford

Timber. Roseburg, Ore. 74. Divorced. 2 children. Started small sawmill (Roseburg Lumber Co.) 1936. Mortgaged to hilt to buy 160,000 unwanted timber acres Douglas County, Ore. at \$2/acre before WWII. Approximate value today: \$2,000/acre. Largely uncut. One of biggest U.S. plywood producers (revenues about \$400 million). With constant reinvestment, estimated net worth: about \$500 million.

Samuel J. LeFrak

Real estate. NYC. 64. Married, 4 children. NYC's LeFrak City part of 30,000 apartments he owns. Now investing big in oil and gas. Has music publishing company. Daughter Francine producer on Broadway. Common denominators: tax shelters and LeFrak's Golden Rule—"Those with the gold make the rules." Estimated net worth: \$500 million.

L. R. Simplot

Potatoes. Boise, Idaho. 73. Divorced, remarried, 4 children by first wife. After quarrel with father, quit eighth grade, left home. Sorted potatoes, raised hogs, put proceeds

into first potato field. Millionaire by 30. Big break: meeting Ray Kroc (*which see*) and owning patent on frozen french fries. "When the time is right, you gotta do it!" Raises Thoroughbreds, has 30' x 50' U.S. flag on 16-story flagpole. Said to be worth \$500 million.

\$200 Million and Up

Samuel Curtis Johnson

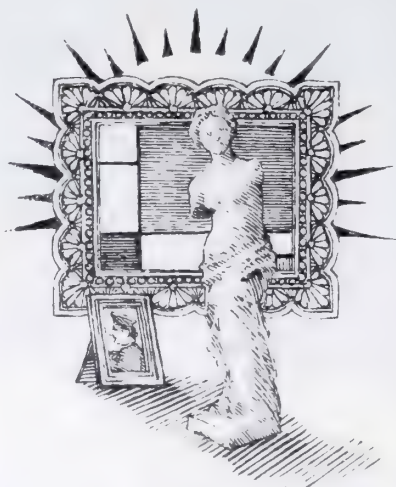
Johnson Wax. Racine, Wis. 54. Married, 4 children. Namesake of founder and 4th generation Johnson to run S.C. Johnson & Son, Inc., now \$2 billion sales company (Future Floor Finish, Raid, Pledge, etc.). Took over 1967; preparing 5th generation. Relaxes by hunting, fishing, photography, flying (qualified as commercial pilot). Has 60% of Johnson stock. Estimated net worth: close to \$500 million.

Laurance Spelman Rockefeller

Inheritance, investments. Tarrytown, N.Y. 72. Married, 4 children. Some success in venture capital 1940s (Eastern Air Lines, McDonnell Douglas Corp., etc.), cofounded United Nuclear Corp. 1950s. Active environmentalist; set up, runs resorts. Estimated net worth: probably about \$450 million.

Edwin L. Cox

Oil. Dallas. 60. Married, 2 sons, 1 daughter. Born Arkansas; in Texas oil since 1946. Poured some cash flow into stockholdings: SEDCO, InterFirst Corp., etc. Made \$15 million on Keebler Co.-United Biscuits merger 1974. One son in oil business with him. "Pleasant, engaging fellow"; helped develop E.L. Cox



School of Business at So. Methodist Univ. 1978. Estimated net worth: about \$450 million.

Charles Cassius Gates

Gates Corp. Denver. 61. Married, 2 children. Father founded business 1911 selling leather bands once used for auto tires, then made tires. Uncle invented V-belt 1917. Inherited 1961, with 4 sisters. Diversified; bought Learjet Industries 1967, still owns two-thirds. Disposed of tire business 1973; Gates Corp. sales nearly tripled since, earnings around \$60 million. Also real estate, etc. Estimated net worth, with family: at least \$420 million.

Michel Fribourg

Grain trader. NYC. 69. Married, 5 children. With 3 sisters, fifth generation of Belgian grain trading family. Hitler made expansion to U.S. essential. Does over 20% world grain trade as 90%-owned Continental Grain. Home reflects love of all things French. Estimated net worth: over \$400 million.

George P. Mitchell

Oil, real estate. Houston. 63. Married, 10 children. Son of immigrant from Greece, sold stationery and bussed tables to complete Texas A&M 1940. Became freelance geologist for eating money plus piece of the action. Assembled pieces into Mitchell Energy & Development. Added real estate from mid-1960s. His 28.4 million shares worth \$300 million; personal assets worth at least \$100 million more.

Winthrop Paul Rockefeller

Inheritance. Winrock Farms, Ark. 34. Divorced, 3 children. Son of Winthrop Rockefeller (d. 1973), the former governor of Ark. Inherited father's mountaintop home, but not his 50,000-acre ranch and farm empire, which went to charity. Rare public appearances confined to charitable fundraising events. Estimated net worth: over \$400 million.

Malcolm Purcell McLean

Trucking, shipping. NYC. 68. Married, 3 children. Put \$30 down on secondhand truck in Depression North Carolina; sold McLean Trucking 1955 for \$6 million. Invented cargo containerization; sold Sea-Land Service, Inc. 1969 for \$160

The Forbes Four Hundred

million profit. Bought real estate, including Pinehurst resort, N.C. Bought U.S. Lines 1978, building new shipping company. Avoids press. Estimated net worth: over \$400 million.

David H. Hurdock

Real estate, acquisitions. Bel Air, Calif. 59. Divorced, remarried; 3 children by second wife. High school dropout. Built homes in Phoenix, Ariz. after WWII; parlayed \$100 million empire; saved \$13 million from 1963 collapse. Next, California: bought real estate, small companies with Graham & Dodd analysis. "When everyone sees it's a good investment, it's time to sell." In April bought Cannon Mills for \$413 million, bank financed. Estimated net worth: over \$400 million.

Cordelia Scaife May

Inheritance. Ligonier, Penna. 54. Inherited \$200+ million 1965 from Mellon mother. Divorced, widowed. 1950 marriage to Herbert A. May Jr. brief. Later wed longtime friend Robert Duggan, Pittsburgh's D.A., 1975. Estranged from brother (see *Richard Mellon Scaife*). Lives modestly; supports zero-population-growth causes. No children. Favors unusual investments such as \$10 million in alternative-energy venture capital firm. Estimated net worth: over \$400 million.

Lammot du Pont Copeland

Inheritance. Greenville, Del. 76. Married, 3 children. Only child of Louisa, Pierre's older sister (see *Pierre S. du Pont family*). Joined Du Pont company 1929. Became pres. 1962; est. work week 80 hours. Corfam, his favorite new product, lost \$150 million for firm; left after son Lammot Jr.'s famous bankruptcy 1970; still on the Board. With Irénée du Pont Jr., considered family's copatriarch. Est. net worth: over \$400 million.

Roger Milliken

Textiles. Spartanburg, S.C. 66. Married, 5 children. Grandson of founder Milliken & Co. Begun 1865 as dry goods jobber; became selling agent for southern mills. Helped fi-

nance, held equity in suppliers until Depression; wound up owning many. Now largest U.S. textile company (revs. approx. \$2 billion); considered best-run despite bath in double-knits. One of three Millikens in company management (president since 1948); his controlling interest probably worth some \$400 million.

Carlton Beal

Oil. Midland, Tex. 66. Married, 4 sons in business. MIT graduate 1945. Cofounded BTA Oil Producers 1952; bought out partner, fellow-Midlander "Moose" Trobaugh mid-1960s. His oil reserves in Texas, Louisiana, Oklahoma, New Mexico worth approximately \$400 million.

Albert B. Alkek

Oil. Victoria, Tex. 71. Married, 1 son, 1 daughter. Borrowed \$250 from rancher-father to try his luck in some up-and-coming oilfields. First well, 1939. Met mentor-patron Harry F. Sinclair (founder Sinclair Oil) 1941; merged, became Sinclair-Alkek 1948. Bought out Sinclair 1952. A major Wall Street plunger. By 1965, annual volume of Alkek's personal stock market trades amounted to \$75 million. Estimated net worth: over \$350 million.

Donald L. Bren

Real estate. Orange County, Calif. 48. Son of actress Claire Trevor; attended college on skiing scholarship. Built first house 1958; expanded rapidly. Built Mission Viejo, sold to Philip Morris 1967. Sold homebuilding company to International Paper for \$34 million 1970, bought back



1972 for \$3.5 million. Big opportunity: now development partner in Irvine Ranch combine; owns 35%. Estimated net worth: \$350 million.

John L. Cox

Oil. Midland, Tex. 57. Married, 2 children. A petroleum engineer at Stanolind Oil & Gas from 1946, went out on own 1952. Settled in Midland. Major operations in Sprayberry Trend in west Texas, now among the largest private oil producers in Texas. Estimated net worth: around \$350 million.

A. V. Pritzker

Jay Arthur Pritzker

Robert Alan Pritzker

Financiers. Chicago. 86, 60 and 56. All married. A.N., 3 children (1 deceased); Jay, 5 children (1 deceased); Robert, 4. A.N. started with father's law firm early 1920s; by 1940 in a position to refuse all new legal businesses—too busy with commercial interests. Started business, real estate ventures with law clients. Now assets (most under Marmon Group umbrella) approach \$2 billion. Family nationally visible from late 1960s as builders Hyatt hotels using unique atrium designs. Acquisitions: *McCall's* magazine, Cerro Corp., Hammond, others. Respected on Wall Street as classic Graham and Dodd investors, looking at assets, liquidity, cash flow. "They like to buy at 80 cents on the dollar." "Very tough." Share estimated net worth exceeding \$1 billion.

W. Ross Perot

Computer services. Dallas. 52. Married, 5 children. Invented "facilities management" as independent business; founded Electronic Data Systems 1962. First man to lose \$1 billion (on paper, 1969, when hot EDS stock plunged). Now plays little day-to-day role in company or Dallas civic life. Owns 52% of EDS, worth \$325 million.

Raymond A. Kroc

McDonald's. Chicago. 79. 3 marriages, 2 divorces. One daughter, deceased; has adopted daughter of present wife. High school dropout. At 52, small-time maker malted-milk machines; discovered Richard and Maurice McDonald doing \$250,000 a year on 15-cent hambur-

The Forbes Four Hundred

gers. Franchised them; bought them out 1961. Still owns 4.86 million shares. Bought baseball Padres 1974. Estimated net worth: some \$320 million.

Arthur W. Wirtz

Real estate, sports. Chicago. 81. Married, 4 children. Son of Chicago cop, started in real estate 1922, managing buildings. Became king of workout artists, buying up Depression-era real estate bankruptcies; hooked up with legendary grain speculator Jim Norris. Built sports empire 1930s; broken up in classic antitrust suit 1957. Owns banks, liquor distributorships, Chicago stadium, travel agency, much Chicago real estate outright: "Arthur doesn't believe in owing any mortgages. He's afraid of them." Late billionaire John D. MacArthur on Wirtz' 123-ft. yacht with gold fixtures: "Jesus, Arthur, I wish I could afford something like this." Estimated net worth: over \$300 million.

Lawrence A. Tisch

Preston R. Tisch

Loews Corp. NYC. Built hotel chain from father's hotel in Lakewood, N.J. (1946); began conglomerating 1959. Well regarded on Wall Street as canny, cash-flow-and-fundamentals investors. The two are inseparable: live close together, dine together, play tennis together, share one limousine. Larry: 58. Married, 4 children. "Bob": 55. Married, 3 children. Estimated net worth: over \$300 million each.

Robert Ruliph (Bobby) Carpenter Jr.

William Kemble Carpenter

Irene Carpenter Draper

Brothers and sister. Inheritance. Children of Margaretta L. du Pont, sister of Pierre S. (see *Pierre S. DuPont family*). Bobby: Montchanin, Del. 67. Married, 4 children. Director Christiana Securities to dissolution 1976; owned baseball Phillies, sold 1981 by son Robert Ruliph III for \$30 million. William: Ft. Lauderdale, Fla. 63. Remarried widower, 1

daughter, 1 adopted stepson. Noted as deep-sea fisherman in his day. Irene (Mrs. James A. Draper III): Rockland, Del. 71. 3 marriages, 2 divorces, 5 daughters by first marriage; known for longtime hobby of cutting hair of friends, relatives in barber chair set in bay window of game room. Roughly equal shares (except Phillies) in fortune probably approaching \$1 billion.

Pierre Samuel du Pont III

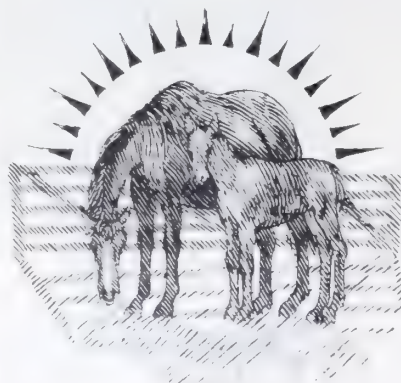
Mary Belin du Pont Faulkner

Esther Draper du Pont Thouron

Edith du Pont Pearson

Willis Harrington du Pont

Inheritance. Surviving children of Lamont du Pont, brother and key associate of Pierre Samuel (see *Pierre S. du Pont family*); pres. Du Pont company 1926-40, chairman 1940-1948; d. 1952. Pierre III: Greenville, Del. 71. Married, 3 children. Rose to v.p. Du Pont company, resigned under pressure after outside business failures. Passionate yachtsman. Son Pierre IV present governor Del. Mary (Mrs. James Morison Faulkner): 75. Married, 7 children. Singularly obscure. Esther (Lady John Thouron): Southeast Penna. 74. Divorced, remarried. Second husband knighted 1976 for British-U.S. student exchange. Edith (Mrs. George Burton Pearson Jr.): Greenville, Del. 70. Widowed, remarried 1968; 5 children by first marriage. Husband prominent Del. attorney. Willis: Palm Beach, Fla. 46. Married, 3 children; son of Lamont's fourth wife (Pierre, Mary, Esther, Edith by first). Citrus, cattle, banking investments



in Fla. Robbed in Miami home 1967 of \$1.5 million rare coins. Siblings believed to share roughly equally in father's estate; Pierre III's worth probably lower than others due to business losses. Fortune now probably totals \$1.5 billion or more.

Leonard Marx

Real estate. NYC. Over 76. Married, 3 children. Graduated Yale 1920s, became broker. Dealt in chain-store properties, switched to shopping centers. Now owns downtown real estate in various cities (some \$50M-worth in NYC alone) and shopping centers, with son Leonard Jr. Highly secretive, very smart. Knowledgeable peers say net worth exceeds \$300 million. Marx strongly denies: "I'm just a working drudge who tries to overcome my shortcomings by working very hard."

August A. Busch Jr.

Anheuser-Busch. St. Louis. 83. 4 wives; once widowed, twice divorced; 11 children, 1 deceased. Family company made corn syrup, yeast during Prohibition; Budweiser before and after. His 6.4 million shares worth \$294 million; has French Renaissance chateau in St. Louis County where he rode to hounds in younger days. Son August A. III, 45, runs company. Estimated net worth: over \$300 million.

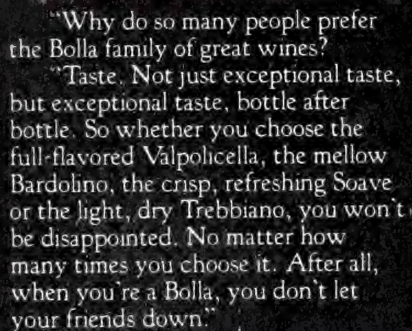
Marion du Pont

Inheritance. Virginia and Camden, S.C. 88. Twice divorced (second was actor Randolph Scott), no children. Granddaughter of "Boss" Henry du Pont (d. 1889), organizer of original Gunpowder Trade Assn. 1872. Father kept Du Pont company stock despite family splits. Noted horsewoman most of this century (first woman to ride astride, not sidesaddle, at Madison Square Garden Horse Show, 1930). Beneficiary 40% father's estate; her share probably now exceeds \$300 million. On death goes to nieces, nephews (see *John Eleuthère du Pont*).

John T. Lupton

Coca-Cola bottler. Chattanooga, Tenn. 56. Married, 4 children. Grandfather John T. used bit of patent medicine fortune and two partners to finance first Coke bottling plants 1899, died 1933. Father Carter ran business until he died in

—Franco Bolla



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1977. John, who joined in 1954, now largest U.S. bottler: Houston, Dallas, Ft. Worth, Austin, Phoenix, Denver; volume \$500 million. Estimated net worth: over \$300 million.

Georgia Rosenbloom Frontiere

Inheritance. Bel Air, Calif. 52. Twice widowed, 3 divorces, 1 annulment; remarried, 2 children. Onetime singer. Met 6th husband 1957: Carroll Rosenbloom, who built small denim factory into land, stock, oil lease and sports empires. Married him 1966; had 2 children. He drowned in swimming accident 1979 at age 72. Inherited bulk of fortune estimated by press at \$300 million and up, including 70% of L.A. football Rams.

John Jeffry Louis Jr.

Inheritance. Winnetka, Ill. 57. Married, 3 children. Former director various corporations, trustee several schools including Northwestern University. Currently U.S. Ambassador to Court of St. James. Mother was a Johnson of Johnson Wax; he has 30% of stock in that privately owned company, worth over \$200 million; also at least \$40 million other investments.

Leslie Townes (Bob) Hope

Entertainer, real estate. North Hollywood and Palm Springs. 79. Married, 4 adopted children. Big in vaudeville, then radio, movies; made \$3.4 million in oil 1949 with Bing Crosby; bought real estate. Now owns 11,000+ acres Los Angeles, Ventura County; Texas oil wells; still makes \$25,000 a show. Net worth probably exceeds \$280 million.

Charles G. Koch

David H. Koch

William I. Koch

Brothers. Oil. Charles: Wichita, Kans. 46. Married. David: NYC. 41. Married, no children. Twin William: Boston. Married, no children. With brother Frederick, 50, own three-fourths of Koch Industries, estimated revenues over \$14 billion from oil, pipelines, refinery con-

struction, ranching, etc. Charles runs company; David, executive v.p. Father Fred, one of three founders of Koch, was charter John Bircher. Charles' and David's politics: Libertarian Party (David ran for vice president 1980). Joint estimated net worth: over \$800 million.

Leon Hess

Oil. NYC. 67. Married, 3 children; a son in the business. Started in father's fuel oil delivery business, Perth Amboy, N.J., at 18; now it's Amerada Hess (owns 10 million shares, is CEO). Considered tough, aggressive, brilliant, loner. Owns about 1/3 Monmouth racetrack; 50% N.Y. football Jets. Estimated net worth: over \$275 million.

Henry Crown

Lester Crown

Father and son. Financiers. Chicago. 86, 57. Henry: remarried widower, 3 children, 1 deceased. Lester: married, 7 children. Henry, son of Latvian immigrant, high school dropout, built up small building materials company starting 1919, merged 1959 with General Dynamics for stock. Spearheaded rescue of GD 1960s. Also substantial investments real estate, other companies. Control of fortune passing to Lester (now exec. v.p. at GD), but Henry remains ruling patriarch. Reputations as tough businessmen. Their joint estimated net worth: well over \$500 million.

Richard Marvin DeVos

Jay Van Andel

Partners. Amway Corp. Ada, Mich. 56; 58. Each married, 4 children. High school buddies; after WWII



tried to run a flying service, then a hamburger stand, then buy and sail a sloop to Cuba (it sank); peddled vitamins to housewives. Went on own as Amway 1959. Recruit housewives, etc., à la Avon or Tupperware; preach Free Enterprise along with peddling soap. Sellers earn pin money or car payments from selling products, real money is in finding new recruits, getting override, helping build the selling structure. At apex: DeVos and Van Andel, equal owners in company worth at least \$550 million.

Philip H. Knight

Nike shoes. Beaverton, Ore. 44. Married, 2 sons. Teamed up with college track coach to sell running shoes 1965. Got U.S. Olympic runners to test own design 1972. Today's marketing approach: name athletes, celebrities dressed in Nikes. Revenues 1981: \$458 million: "We're just a bunch of guys selling sneakers." Knight's personal best: 4:13 mile. Stock: \$275 million.

Clint W. Murchison Jr.

Oil, investments. Dallas. 58. Divorced, remarried, 4 children. Son of famous Texas oilman and one-man conglomerate, Clint Sr. (d. 1969). ("Money is like manure. You have to spread it around.") Clint Jr. and late brother John (d. 1979) did so: 33% Centex, 32% Kirby Exploration, 100% Dallas Cowboys, ranch land, real estate, etc. Net worth: at least \$260 million.

Clarence Scharbauer Jr.

Inheritance. Midland, Tex. 57. Married, 4 children. Father settled in Midland 1889, became leading citizen: built the hotel, ran the bank, etc. As rancher, needed many acres to support each cow in dry west Texas climate. Acquired thousands of acres, some on Permian Basin, one of richest oil provinces in U.S. Clarence Jr. probably most powerful man in Midland. Estimated net worth: \$250 million or more.

Walter Shorenstein

Real estate. San Francisco. 67. Married, 3 children. Born Glen Cove, N.Y.; demobilized 1945 in San Francisco with pregnant wife, termination pay. Got commission job as salesman for Milton Meyer & Co. Became partner 1951; sole owner since 1960. Builder, part-owner nu-

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merous buildings S.F. financial district; also L.A., Kansas City, Houston. Estimated net worth: exceeds \$250 million.

Joe Louis Albritton

Newspapers, TV. Houston, et al. 57. Married, 1 son. Father owned cafés in Houston. Son became millionaire 8 years out of college buying 400 acres Houston on bank loans. Bought, sold other businesses, built small chain newspapers, TV stations. Owns ABC affiliate Washington, D.C. worth perhaps \$150 million. Estimated net worth: exceeds \$250 million.

David B. Shakarian

Health food stores. Pittsburgh. 68. Married, 2 children. Father was first importer of yogurt into U.S. Opened own store 1935, did \$35 first day; had six stores by WWII. Began serious expansion 1960: chain of big, flashy discount health food stores instead of small, cracker-barrel norm. Now has over 1,000 GNC outlets coast to coast, mostly in big shopping malls. Went public 1980. With immediate family, owns 80% of stock, plus real estate development in Fla. Estimated net worth: over \$250 million.

Ted Arison

Shipping. Miami Beach. 57. Married, 3 children. Fourth-generation Israeli, now U.S. citizen. Father owned largest Israeli shipping company; Ted built Miami's Carnival Cruise Lines on his own nickel: 4 luxury "fun" ships, like TV's *Love Boat*, fully booked; gambling on board. Revenue per ship said to exceed Fontainebleau Hotel's. Also real estate, freight shipping. Estimated net worth: over \$250 million.

Arthur B. Belfer

Oil, real estate. NYC. 75. Twice married, 3 children, 2 stepchildren. Polish-born. Quit making sleeping bags for Army 1952; got into oil and gas 1954. Went public as Belco Petroleum 1959; vast production in Peru; with family, owns some 45%. Son Robert, president, manages Belco. One son-in-law, Jack Saltz, sr. v.p. Belco; other, Lawrence Ruben, co-

manages extensive NYC real estate holdings for family and self. Estimated net worth: over \$250 million.

Jane Engelhard

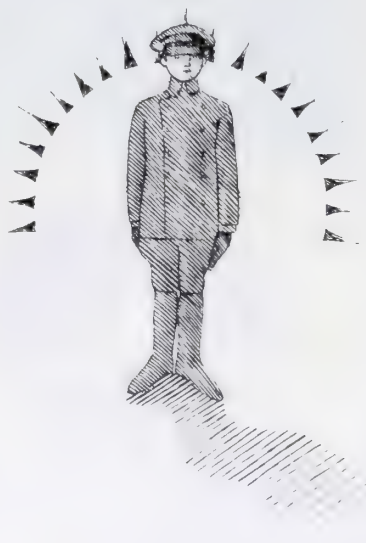
Inheritance. N.J. Mid-60s. Twice widowed, 5 daughters. Married Charles Engelhard 1947; the legendary "Platinum King" (Engelhard Mineral & Chemical) adopted her daughter. Traveled together in private transoceanic jetliner worldwide. He died 1971; estate estimated \$300 million. Now she lives in their Georgian mansion on 172-acre hill property. Estimated net worth: above \$250 million.

Edward L. Gaylord

Newspapers, TV. Oklahoma City. 63. Married, 4 children. Father E.K. Gaylord bought into *Daily Oklahoman* 1903; long most powerful man in state. Ran Oklahoma Publishing Co. until death (1974) at age 101; Edward L. now runs \$500 million-plus newspaper-TV-real estate empire; family has majority control.

Warren Buffett

Stock market. Omaha. 52. Married, 3 children. Worked two years for late Benjamin Graham. Started family-based investment partnership 1956, dissolved 1969 after 30-fold increase, no down years; turned bull again circa 1974 (DJIA: 580). Likes to buy when "bears are giving them away." Now runs two newspapers,



other businesses; sits on several boards; lives modestly. Estimated net worth: \$250 million.

Larry Fisher

Zachary Fisher

Brothers. Real estate. NYC. Late 60s. Both married. Larry, elder. Each 1 child. Third generation of family in NYC real estate (Park Avenue Plaza, Burlington Building, et al.); numerous sons, nephews, cousins in business. Respected for good architectural sense; when Daniel Ludwig left NYC real estate circa 1972, kept interests with Fishers. Larry: tough negotiator; baseball fanatic. Zachary: bankrolled effort to turn aircraft carrier *Intrepid* into floating museum. Estimated net worth: \$500 million, shared.

Jake Louis Hamon Jr.

Oil, gas. Dallas. 80. Remarried, 1 son, 1 daughter. Father was oilman, sat in "smoke-filled room" at nomination of Warren G. Harding. Jr. inherited connections, started drilling east Texas in Depression. Has vast oil interests, production: "I've never had a big discovery, that's why I keep staying in the business. God-damn, you want to find an East Texas field! All I've ever found are small fields." Estimated net worth: \$250 million.

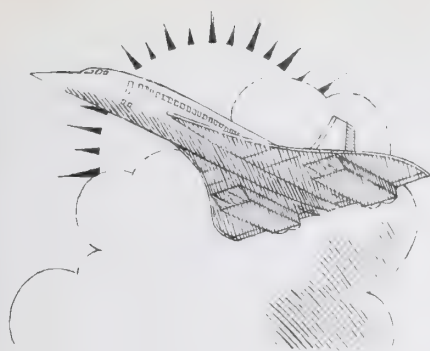
C. Wayne Rollins

Rollins, Inc. Atlanta. 70. Married, 2 children. Started in textile mill at \$10/week. Moved on to auto dealerships, radio, TV stations. Founded Rollins, Inc. 1948, diversified rapidly by acquisition. His stock \$125 million; also \$30 million in Intermedex; 50,000 acres Ga., Fla., Del. Avid farmer and quail hunter. Estimated net worth: \$250 million.

Jack Rudin

Lewis Rudin

Brothers. Real estate. NYC. Father Samuel and brothers founded Rudin Management 1924. Jack: 58. Married, 3 children. Lewis: 55. Remarried, 2 children. Both joined firm 1946. Long-held family philosophy: Never sell. But interest rates, rent guidelines may force change. Own 4,000 apt. units in 25 buildings, 6 million sq. ft. office space. Prepaid taxes in 1975 NYC fiscal crunch. "We had to do something. We



couldn't pick up our buildings and move across the Hudson." Share estimated net worth approximately \$500 million.

Betsy Cushing Whitney

Inheritance. Long Island. 74. Divorced, widowed, 2 children by first marriage. Daughter of noted brain surgeon Harvey Cushing. First husband, James Roosevelt, son of FDR; divorced 1940. Married 1942 John Hay Whitney, heir to vast 19th-century fortune (oil, tobacco, street railways, real estate). On his death Feb. 1982, heiress to nearly all of estate estimated at \$250 million.

Harry Weinberg

Real estate. Honolulu and Baltimore. 74. Married, 1 son. Austrian-born, left sixth grade to work in father's Baltimore auto repair shop. Made money on real estate 1930s. Bought public bus systems 1950s and 1960s, including Fifth Avenue Coach Lines, NYC; sold at profits, sometimes to cities. Owns vast amounts Hawaii real estate; positions in Alexander & Baldwin, Dillingham, Maui Land, etc. Known as richest man in Hawaii. Estimated net worth far exceeds \$200 million.

Kenneth W. Davis Jr.

T. Cullen Davis

William Selden Davis

Brothers. Inheritance. Ft. Worth. Sons of Ken Davis Sr. (d. 1968), founder Kendavis Industries, etc., \$2 billion revenues oilfield equipment, contract drilling, exploration & production complex; each inherited over 30%. Ken, who now runs company, and Cullen forced out younger brother Bill, who got \$100 million out-of-court settlement; older brothers' holdings now may be \$250 million each. Ousted brother now runs father's oil and gas outfit, Davoil, Inc. Ken Davis Jr., 56, divorced, 3

children. Bill, 46, divorced, 2 children by first marriage; 3 with current wife. Cullen, 48, twice divorced, remarried, 2 children by first wife, acquitted 1977, 1979 in killing of second wife's male friend, stepdaughter; charged with seeking to kill divorce judge, dismissed 1979. Now born-again Christian.

Helvin Simon

Shopping centers. Indianapolis. 55. Divorced, remarried. Born Brooklyn to garment district worker; after war in Korea was renting agent for shopping center: started at \$100 a week against commission. Began building centers 1959. One of first to bring in movie theaters to fill empty parking lots in evenings. Holdings: 37 million sq. ft. gross leased area. Started movie company 1977. Estimated net worth: well over \$200 million.

Sylvan Nathan Goldman

Supermarkets, real estate. Oklahoma City. 83. Married, 2 sons. Painfully built supermarket chain 1930s (checkout counter sign after 1933 bank holiday: "We took your check when no one else would."). Invented shopping cart 1936. Merged 33 stores into Allied Supermarkets 1955, became president. "Retired" 1959 to build massive real estate empire Okla., Puerto Rico, Colo., Tex., Ariz., et al. Family owns former Kaiser Estate in Hawaii. Estimated net worth: considerably upward of \$200 million.

Henry John Heinz II

H.J. Heinz Co. Pittsburgh. 74. Divorced, remarried 1953. 1 son. Grandson of founder, who, at 16, found housewives would pay for convenience (he grated, bottled horseradish for resale). H.J. II ran company 1941-66, brought in non-family management 1966, broadened company horizons. Now chairman, only Heinz in company. Controls 7.9 million shares recently worth \$237 million. Son, H.J. III, senator from Penna., listed assets 1980 at \$30 million.

Dolly Green

Liliore Green Rains

Burton Green Bettingen

Sisters. Inheritance. Daughters of Burton E. Green (d. 1965), promoter,

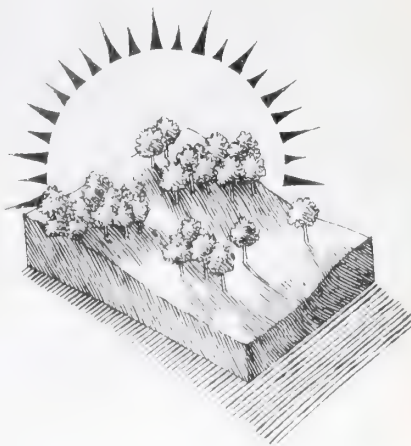
first Beverly Hills real estate developer, cofounder Belridge Oil 1911, its president 1925-65. Belridge bought by Shell Oil 1979 for \$3.65 billion; sisters share nearly \$700 million. Also own Beverly Hills real estate. All over 70. Dolly: Eldest. Beverly Hills. Formerly married, no children. Year after Belridge sale, made first appearance at horse auctions, paid \$2.2 million for 5 yearlings. Devout; said to be attached to her 3 dogs; likes to wear red. Liliore: Beverly Hills. Widow. President L.A. Girl Scouts 1961-63; has been socially prominent; lately, withdrawn from society functions. Burton (Burtie) (Mrs. William Bettingen): Beverly Hills. Married, 2 children. Year after Belridge sale bought late John Wayne's beach house for \$5 million; ran antique shop in Beverly Hills area as a hobby. Estimated net worth: over \$200 million each.

Sol Goldman

Real estate. NYC. 64. Married, 4 children. Goldman-DiLorenzo once NYC's largest, most leveraged landlord. Controversial. Almost destroyed by 1973-74 real estate debacle. On partner's death (1975), Sol and Alex DiLorenzo's sons split remaining three-fifths of holdings by flipping quarters for parcels. Goldman buying up all over again. Estimated net worth: over \$200 million; he claims \$500 million.

Charles B. Benenson

Real estate. NYC. 69. Divorced, 3 children. Father built Bronx apartments from 1900, switched to investing 1920s. Charles, Yale graduate, joined Benenson Realty 1933. Obscure by choice; shrewd private investor with several NYC builders, including Harry Helmsley (*which see*), bridge partner Larry Tisch



The Forbes Four Hundred

(which see). Substantial waterfront acreage Long Island; large investment portfolio. Active Museum of Modern Art; respected collection West African art. Despite dogged denials, net worth probably exceeds \$200 million.

Lila Acheson Wallace

Reader's Digest Association. Mt. Kisco, N.Y. 91. Widow, no children. Helped late husband, DeWitt (d. 1981), found *Digest* 1922 on borrowed \$1,800 in basement of Greenwich Village speakeasy. Now 37½% owner; rest in foundations; trust will run magazine. DeWitt's wish: "I hope this company will still be private 50 years from now." Estimated net worth: at least \$200 million.

Harold Furber

Real estate. Houston. 59. Divorced, remarried, 5 children by first marriage. First built a few buildings in 1950s. Now owns 25,000 apartments in boomtown Houston. Diversifying: Plans \$350 million office complex; *Ultra* magazine (how-to manual for Texas' swank set); sings own record albums (Gershwin tunes). Estimated net worth: well over \$200 million.

Wilton Petrie

Retailer. NYC. 80. Married 4 times, twice divorced, once widowed; 3 children. Began with 1930s Reconstruction Finance loans; into bankruptcy 1937, out 1938. Worth \$5 million 1960 as retailer women's clothing. Stock market coup 1960 (buying shares of competitor-take-over candidate) financed big expansion. Goes to office only mornings now, but still dominates staff. His Petrie Stores stock, worth around \$225 million, pays him \$14 million/year dividend. Married to former Marquesa De Portago.

William B. Ziff Jr.

Ziff-Davis Publishing Co. NYC. 51. Divorced, 3 sons. After father's death 1953, bought out Davis. Runs prosperous, growing business publishing 52 magazines (*Boating*, *Car and Driver*) for young, special-interest, consumer-oriented audience; also trade publications. Now study-

ing computer-age database publishing. Lives modestly in East Side town house. Estimated net worth: over \$200 million.

Robert Alfred Lurie

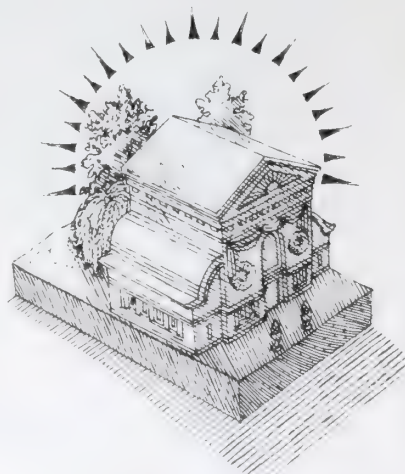
Real estate. San Francisco. 53. Married, 6 children, 2 adopted. Father Louis R., born Chicago, went to San Francisco 1914; bought, sold real estate, built 300 buildings. Backed movies (Tarzan series), talent (Mae West), Broadway shows (*Pajama Game*, *Fiddler on the Roof*, etc.). Self-made, abrasive; overshadowed only son Robert until death 1972. Robert ("nice guy") bought baseball Giants 1976; owns \$100 million real estate in Chicago, probably at least as much in S.F., other assets.

R. E. (Ted) Turner

TV, cable. Atlanta. 43. Divorced, remarried, 5 children. Began in 1963 with dead father's bankrupt billboard company; entered TV inauspiciously 1969. Acquired 87% Turner Broadcasting Co. 1974; pioneered satellite cable TV network. Company has negative net worth but shares increased tenfold. Yachtsman. Salty expresser of strong views. Stock worth \$220 million.

Arthur Charles Nielsen Jr.

A.C. Nielsen Co. Winnetka, Ill. 63. Married, 3 children. Nielsen Sr. (d. 1980) founded market survey firm 1923. During Depression, found people claimed to buy prestige Lux soap, really bought proletarian Lifebuoy. Decided to count sales, not words. Result: dominant company



measuring grocery sales, TV ratings. Jr. took over 1976. Stock recently worth \$216 million.

Ray Lee Hunt

Ruth Ray Hunt

Ruth June Hunt

Helen Hunt

Swanee Hunt - Weeks

Inheritance, oil, real estate. Dallas area, except Swanee in Denver. Ray Lee: 39. Married, 5 children. His mother, Ruth Ray: 65. Widowed. Sister Ruth June: 38. Unmarried, no children. Sister Helen: 33. Divorced, 2 children. Sister Swanee: 32. Married. The second family of legendary oilman H.L. Hunt, who legitimized family by marrying Ruth Ray 1957, after death of first wife 1955 (long kept families secret from each other). Inherited Hunt Oil Co., other properties 1974. Women active in religious affairs: Ruth June works as professional Christian speaker-singer, Swanee married to minister. Ray manages business affairs; turned around ailing Hunt Oil, expanded exploration, undertook vast real estate development in and around Dallas—especially skyline-dominating Reunion Center—started *D* magazine. Mother's \$250 million inheritance now a shared fortune of over \$1 billion.

John Willard Marriott Jr.

Marriott Corp. Washington, D.C. 82. Married, 2 sons. With wife, opened A&W Root Beer stand 1927. Learned restaurants well; built Hot Shoppes chain. Paid his help well, stayed nonunion. Added first hotel 1957. Now sons John Jr. and Richard run family business, including chain of 107 hotels, but father is chairman, mother a v.p. Family stock worth over \$200 million.

Stephen A. Hux

Real estate. Miami Beach. 54. Married, 5 children. Inherited (with mother and 2 sisters) father's real estate empire in northern N.J., southern Fla. Crown jewel: "Seacoast Towers," 1,100 Miami beachfront apartments and Hotel Alexander, worth near \$300 million if co-oped. Owns 75% of Miami's Fontainebleau Hotel. Local political power broker. Estimated net worth: over \$200 million.

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Victor Posner

Financier. Miami Beach. 63. Twice divorced, 4 children. Began 1930s as Baltimore real estate broker selling houses and retaining land; built substantial real estate empire. In 1960s began acquiring undervalued, asset-rich public companies. Now controls 7. Also much Fla. real estate. Net worth: over \$200 million.

Eugene S. Pulliam

Newspapers. Indianapolis. 68. Married, 3 children. Father Eugene C. started with small-town Indiana paper, bought Indianapolis papers during and after WWII; Phoenix papers at end of war. Eugene S. inherited control Central Newspapers, Inc. 1975. Estimated net worth, mostly family trusts: over \$200 million.

Chapman I. Root

Coca-Cola bottler. Ormond Beach, Fla. 57. Married, 5 children. Grandfather introduced Coke bottle, bought up bottling plants (d. 1945). Chapman took over 1950 (father killed 1932 in plane crash). Developed outside interests; quit Indianapolis racing-car scene after crash killed 2 of his drivers. Bought out by Coca-Cola May 1982 for resale to owners "who will aggressively support and promote Coke products." Now lives across from golf course. Estimated net worth: over \$200 million.

Cakleigh Blakeman Thorne

Commerce Clearing House, Inc. Millbrook, N.Y. 50. Married, 4 children. 4th generation of founding family to run company, publishes comprehensible summaries of changes in law (copyright, tax, energy) for lawyers, other professionals. They pay handsomely for plain English: net aftertax is 10%. His 4 million shares worth over \$200 million.

Edwin C. (Jack) Whitehead

Medical instruments. Greenwich, Conn. 63. Married, twice divorced; 3 children by 1st wife; 5 stepchildren. He and father founded Technicon Corp. (makes highly sophisticated blood analyzers) 1939 on \$5,000 in Bronx loft; father died 1967. Company went public 1969, Edwin briefly

a paper billionaire before market slide. Sold to Revlon 1980. Net worth must exceed \$200 million.

Vivian L. Smith

Inheritance. Houston. 76. Widowed, 2 daughters. Husband R.E. (Bob) Smith started in oil, used profits to buy land in Harris County (in and around Houston) starting 1950s: "I believe completely in inflation." At one point owned 17 square miles inside city limits, ranches elsewhere. Believed to be worth \$500 million at death 1973. Despite taxes, etc., her trusts probably exceed \$200 million.

John Dempsey

Bulk containers. Delaware, Ohio. 68. Divorced, 6 children. In 1946, an accountant; family owned minority block Greif Bros. Corp., cooperage founded 1877. Hunted down, bought voting stock control at average of \$35, took over as CEO 1947. Equivalent shares now: about \$2,400. Conservative, religious. "I can't remember ever firing anyone." Given breakup value of business and substantial idle land, portion imputed to his family's voting stock (not traded): over \$200 million.

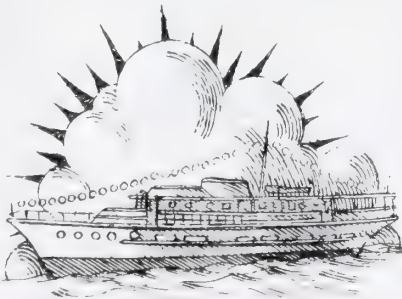
Abby Milton O'Neill

Mrs. George D. O'Neill. Inheritance. Oyster Bay, N.Y. 54. Married, 6 children. Granddaughter of John D. Rockefeller Jr., niece to Nelson and David, daughter of late Abby Rockefeller. Very active in civic affairs and charities, particularly counseling for adolescents and families. Her interest in Rockefeller family trusts exceeds \$200 million.

Hugh Rodney Sharp Jr.

Bayard Sharp

Brothers. Inheritance. Sons of Isabella du Pont Sharp, sister of Pierre (see



Pierre du Pont family). Hugh: Wilmington, Del. 72. Married, 3 children. Was active with family foundations, Du Pont company 1933-82. Thought to have continuing great influence in family. Bayard: Centerville, Del. & Boca Grande, Fla. 69. Married, no children. Director Christiana Securities to its dissolution 1976. Active breeder and racer Thoroughbreds. Now runs exclusive resort Boca Grande, Fla. Brothers share family fortune now probably exceeding \$400 million.

Alexis Felix du Pont Jr.

Alice Francis du Pont Mills

Brother and sister. Inheritance. Children of A. Felix Sr., distant cousin who sided with Pierre in family split 1914 (see du Pont family), got 8% Christiana Securities. A. Felix Jr.: Kennett Pike, Del. 76. Divorced, remarried; 3 children by first wife, 1 by second. Early test pilot, executive in several smaller aircraft companies, now retired; once built cradle in private plane for infant son. Alice (Mrs. James Paul Mills): Hobe Sound, Fla. 69. Married, 3 children. Raises horses; daughter married artist Jamie Wyeth. Estimated net worth brother and sister: probably exceeds \$200 million each. Brother Richard Chichester (noted pilot killed in WWII glider crash) left 2 children, widow, inheritance probably also exceeding \$200 million.

Norton Winfred Simon

Industrialist, art collector. 75. Divorced, remarried (to actress Jennifer Jones); 2 sons by first marriage (1 deceased). Survived '29 Crash with \$35,000. Bought defunct orange juice plant 1931 for \$7,000, built up. Acquired Hunt Brothers Packing 1940s, parlayed into giant Hunt Foods; that into Norton Simon conglomerate. Retired 1969, worth over \$100 million. With art, investments, believed to be worth well over \$200 million.

Seymour Cohn

Real estate. NYC. 71. Widower, 2 children. After WWII, lived next to his brother Sylvan Lawrence, Levittown, N.Y., commuted together to work, found apt. tenants for commissions. Turned profits on small buildings and parlayed gains into largest, if unsung, real estate holdings by an individual in lower Man-

The Forbes Four Hundred

hattan. Cohn now spends time with racehorses. Sylvan ran firm until death 1981. Estimated net worth may exceed \$200 million.

John Thompson Dorrance Jr.

John Thompson Dorrance III

Father and son. Campbell Soup. Grandfather Dorrance founded the company, died 1930 leaving \$129 million estate, third-largest in U.S. to that date. Jr.: Gladwyne, Penna. 63. Divorced, widowed, remarried; 3 children by first marriage. Has run family company since 1962. John III: Wyoming. 38. Married, 2 children. Full-time cattle rancher: "In the haying season he gets up at daybreak and doesn't get back home until late in the evening." Co-trustees of 10.2 million Campbell's shares. With other assets, family fortune estimated at around \$400 million.

Doris Duke

Inheritance. Somerville, N.J. et al. 70. Twice divorced; 1 child, deceased. Daughter of James Duke, self-made founder of American Tobacco Co. Inherited \$70 million at age 13; since then the constant object of press scrutiny. Sole contributor of the Newport Restoration Foundation in Newport, R.I., which restores 18th- and early 19th-century homes. Major beneficiary of the Doris Duke Trust; her interest and other assets believed to approximate \$200 million.

Edward Bradford du Pont

Margaret Lewis du Pont Smith

Brother and sister. Inheritance. Surviving children (brother died 1976) of Henry Belin du Pont Jr. (d. 1970) who was age 3 when father died. Partly raised by Pierre (see *Pierre S. du Pont family*) and endowed with part of family fortune. Edward: Wilmington, Del. 48. Married, 3 children. Left Du Pont company middle management depressed about prospects for promotion; controls aviation maintenance company founded by brother, said to be influential among du Ponts; avid yachtsman. Margaret (Mrs. Edgar Newbold Smith): Paoli, Penna. 52. Married to

financial consultant, 4 children. Brother and sister share fortune probably around \$400 million.

Charles B. Grant

Oil well supplies. Houston. 61. Twice divorced, 3 daughters by first marriage. Left first father-in-law's company, started competing Grant Corps. 1960. Sells pipe from Sumitomo, U.S. Steel, Armco, etc. worldwide; current volume over \$1 billion. Entertains in own 1928-vintage Pullman car, keeps offices near RR yard: "He'd rather talk about railroads than anything." Estimated net worth: \$200 million.

Robert Charles Joseph Edward Sabatini Guccione

Publisher. NYC. 50. 2 divorces, 5 children. Son of former accountant; grew up in N.J. Began *Penthouse* magazine with no capital in London 1965. Estimated cash flow \$30 million. Former Nixon supporter. Publishes *Omni*. Hugh Hefner and he not on speaking terms. Estimated net worth: close to \$200 million.

Joyce Clyde Hall

Donald J. Hall

Father & son. Hallmark Cards. Kansas City, Mo. "J.C.": 91. Widower, 3 children. Became postcard distributor 1906; gradually switched to greeting cards. Uncanny sense of what would sell: "Never have I seen

anything, except the worship of God, taken as seriously as J.C. takes greeting cards." Built national distribution, quality image; now semi-retired. Donald: 54. Married, 3 children. In management since 1952; president from 1966. Also has troubled K.C. real estate project. Father and son share 75% control, worth \$400 million, of Hallmark.

William Randolph Hearst Jr.

Randolph Apperson Hearst

David Whitmire Hearst

George Randolph Hearst Jr.

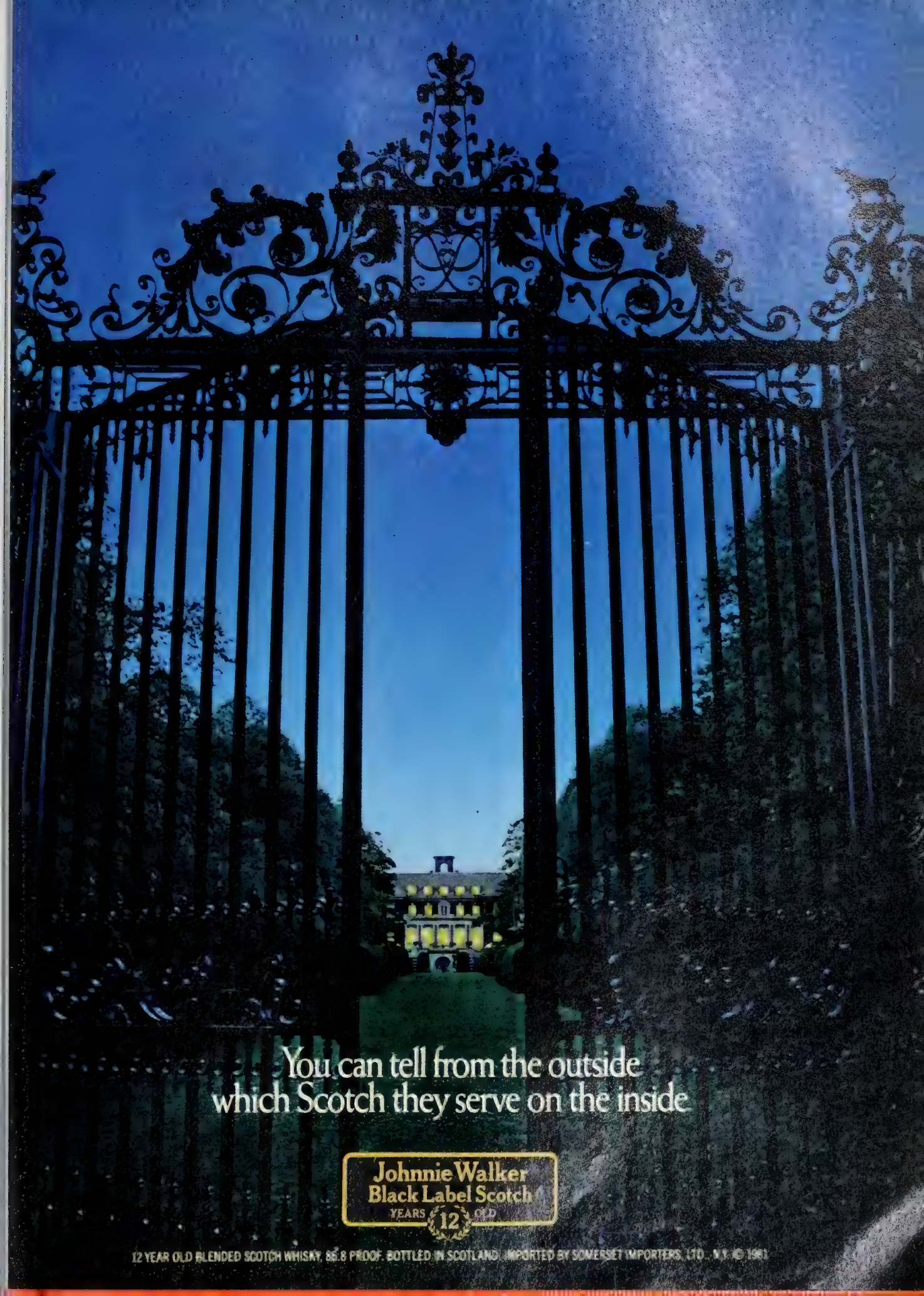
Phoebe Hearst Cooke

Inheritance. Children (and grandchildren) of William Randolph Hearst, inheritors of Hearst newspaper, magazine, TV, real estate empire. Gained control 1974, despite Hearst's will, by having foundations sell out to family trust. William Jr.: NYC. 74. 3 marriages, twice divorced, 2 children. Writes column for family papers, got Pulitzer 1956 after father's death. Brother Randolph: San Francisco and Paso Robles, Calif. 66. Divorced, remarried, 5 daughters; father of Patty Hearst; heads flagship S.F. newspapers. Brother David (Randolph's twin): Beverly Hills. 66. Married, 2 children. Ran (LA) *Herald Express* 1950-60, semiretired from age 45; plays golf; quiet. Nephew George Jr.: Los Angeles. 55. Divorced, remarried, 4 children. Ran *Herald-Examiner* 1962-77. George moved 1977 to oversight of real estate. Niece Phoebe (Mrs. Amory Cooke): George's twin, Woodside, Calif. 55. Divorced, remarried, 1 child. With husband, active in fight to gain control of family company; now corporate director. Each brother has 20% interest in \$1 billion-plus family trust; George and Phoebe share father's (d. 1972) 20%; 4 children John Randolph Hearst (d. 1958) share remaining 20%.

Cleta Culp Hobby

Houston *Post*. Houston. 77. Widowed, 2 children. Ran for Texas state legislature at age 25, lost. Married next year at age 26 to former governor and *Post* publisher. (d. 1964). Became co-editor, publisher 1952; added radio, TV stations to company. Distinguished public service career (headed Women's Army Corps WWII; on cover of *Time* 1944,





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The Forbes Four Hundred

1953). Wealth in names of heirs, but largely controlled by her. Estimated net worth: approximately \$200 million.

Howard Kaskel

Real estate. NYC. 45. Married, 6 children. Father Alfred (d. 1968) built up Doral hotel chain: hotel, country club in Miami, 3 NYC hotels. Also, as Carol Management, substantial apt. properties Conn., outer boroughs NYC. Son, with family members, has managed successfully. Estimated net worth: around \$200 million.

Howard B. Keck

William Keck Jr.

Brothers. Superior Oil Co. Los Angeles. William Sr. was legendary oilman, founded Superior: among first to drill offshore Louisiana, among first in Venezuela. Sons' conflicts forced father to choose one as successor 1953. Howard: 69. Married, 4 children. In old man's shadow until his death 1964; CEO 1964-81. Shifted company toward mining, timber, farming, etc.; company languished. Forced to turn back to oil 1976. William Jr., 71. Married, 1 son. Inactive. Howard's stock worth some \$200 million; William's \$100 million.

Robert Adam Mosbacher

Oil. Houston. 55. Divorcing second time, 4 children by first marriage. Born White Plains, N.Y. to moneyed family, went to Houston 1948 to become wildcatter. Has real estate, ranching interests in addition to Mosbacher Production Co., worth at least \$200 million. Likes yachting, twice world champion in Olympic classes; key fundraiser for Gerald Ford 1976.

Jack Parker

Real estate. NYC. 67. Married, 2 children. Started in Depression as lumber salesman, established own lumber company. Started Jack Parker Construction 1954. Took risks: huge luxury apt. complex in Forest Hills, N.Y. It worked. Expanded into Manhattan, Florida 1960s. Built Parker-Meridien Hotel midtown Manhattan, plans more; co-

oping 2,500 apts. on Manhattan's East Side. Twice Long Island Seniors golf champ. Estimated net worth \$200 million.

Donald Worthington Reynolds

Newspapers and media. Ft. Smith, Ark.; Las Vegas. 75. 3 times a widower, 3 children. Fired from first newspaper job ("It was my fault"). Helped publish *Yank* magazine WWII. Since war, has built Donrey Media Group: 44 dailies (circ., 430,000), radio stations, TV; getting into cable. Has foundation ready to inherit, operate his businesses. Estimated net worth: \$200 million.

Daniel Crow Searle

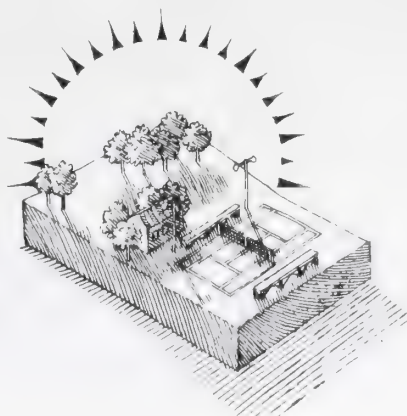
William L. Searle

Suzanne Searle Dixon

Brothers and sister. Inheritance. Chicago area. 56, 54, 51. All married; each 3 children. Fourth generation involved G.D. Searle & Co. (Daniel chairman, others directors). Father John G. built drug company to eminence, awe-inspiring profitability 1936-66. Tried, failed to merge to get good successor management. Daniel, CEO 1966-77, presided over deep tailspin, brought in former Defense Secretary Donald Rumsfeld 1977; dramatic recovery since. Their family stock, mostly in trusts, worth about \$600 million.

Athalie (Joan) Irvine Smith

Inheritance, lawsuits, lobbying. Middleburg, Va. & Emerald Bay, Calif. 49. 4 times divorced, 3 sons. Lost father at 2; raised close to grandfather who inherited and built



Irvine Ranch. She inherited 22% interest; 54% to foundation run by his cronies. Fought cronies from age 24 (at least 18 lawsuits); pushed tax law amendment that eventually forced sale of ranch. Joined Taubman-Allen investor group for 1977 bidding, legal wars. She won: received \$72 million cash, has 11% interest worth estimated \$110 million. Thereafter, new management got up to 10 hand-delivered missives from her per day, dropped her from executive committee. "My whole life is tied up in this."

An Wang

Lorraine C. Wang

Wang Laboratories, Inc. Lincoln, Mass. 62. 3 children. An Wang born Shanghai to middle-class family. As he recalls it, "middle class" meant wealth of "maybe \$100 American." Emigrated 1945; naturalized 1954. Invented magnetic-core memory, computer essential for 20 years. Founded Wang Labs 1951. First year's sales \$15,000; grown 40% to 50% a year since. His shares worth \$200 million; those of Lorraine, 62, \$120 million; children's, mostly in trusts, \$300 million.

Under \$200 Million

Har Palensky

Computers. Los Angeles. 58. Twice divorced, remarried, 4 children. Son of poor immigrant housepainter. Went to work at \$100 a week for Bendix 1952, designing computers. Founded Scientific Data Systems 1961 with associates, \$1 million from venture capitalist Arthur Rock; sold to Xerox 1969, pocketed \$100 million. Remarried twice thereafter, made movies, backed liberal causes, got bored. Started new SDS 1979: some of the same associates, same name. Estimated net worth: approaching \$200 million.

Stanley E. Hubbard

Broadcasting. St. Paul. 85. Twice widowed, once divorced, remarried; 3 children, 1 deceased. Started early radio station 1923. Now 5 radio, 3 top TV stations: major privately owned broadcasting group. Son, Stanley S., 49, running business (in his shadow until father suffered serious stroke Nov. 1981). Plans ambitious direct satellite system. Conservative, hard-nosed: "They go

The Forbes Four Hundred

through employees the way Henry VIII went through wives." Estimated net worth (denied by son): over \$175 million.

John Seward Johnson

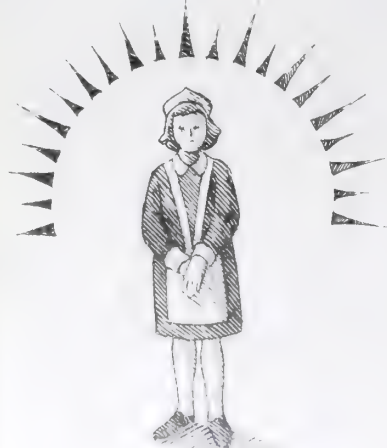
Johnson & Johnson. Ft. Pierce, Fla. 87. 3 marriages, 6 children by first two. More than 50 years a vice president in father's Band-Aid company. Wry sense of humor. He retired in 1971, owns 3.5 million shares of stock (recently worth \$140 million) and took up the quiet life with youngish 3rd wife at homes in Florida, in Italy, on Bahamian isle, and mansion outside Princeton, N.J. Also active in oceanographic research foundation. Estimated net worth: over \$170 million.

David Tusk

Oil. California. 67. Married, no children. As a child emigrated from Canada to Midland, Tex.; tried hand as independent oil producer, did very well. Now, his estimated net worth: at least \$170 million. Partially incapacitated by stroke.

William Garrard Reed Jr.

Timber. Seattle. 74. Married, 3 children. Grandfather founded Simpson Timber Co. Became chairman 1945, built to substantial size. Retired suddenly 1971, 2 years early, put son William Jr. in charge of company; left most of his boards. Has given substantial money to research into throat and laryngeal disorders.



With family, he still owns 90% of Simpson Timber. Family shares recently worth about \$170 million.

Henry Mack McNeil

Pharmaceuticals. Plymouth Meeting, Penna. 65. Married, 4 children. Grandfather opened a drugstore in Philadelphia 1879; it grew, and McNeil's father added manufacturing operation 1914. McNeil became president of McNeil Laboratories in 1955; important national drug company. Civic-minded. Sold out to Johnson & Johnson 1959 for stock now worth about \$168 million.

Seymour Durst

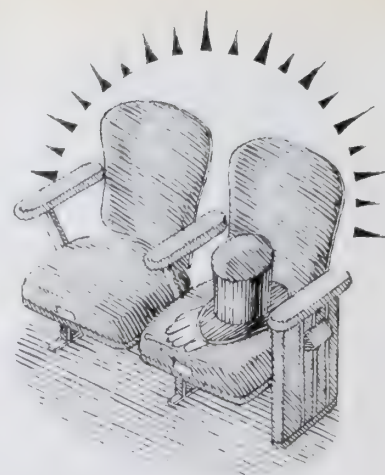
Roy Durst

David Durst

Brothers. Real estate. NYC. Father Joseph started Durst Organization 1915 to oversee handful of tenements. Sons, who moved into midtown Manhattan commercial properties 1940s, follow Seymour's rule: "Never buy farther than you can walk." Own about 100 properties: 3.5 million sq. ft. office space, large assembled blocks of properties in eventual path of Times Square reconstruction plans. Seymour: 66. Widower, 4 children. Considered driving force among brothers, specializes in land assembly; maintains private East Side library on NYC history. Roy: 62. Married, 3 children. Provides management, oversees construction. David: 59. Married, 5 children. Handles building design, leasing operations. Brothers equal partners in approximately \$500 million enterprise; sister Alma has passive interest.

Kenneth Harry Olsen

Digital Equipment Corp. Lincoln, Mass. 56. Married, 3 children. Once just a bright circuit designer at MIT's Lincoln Labs; set up shop 1957 in corner of an old American Woolen Co. mill to build small computers for sophisticated users. Organized company to encourage flow of ideas from bottom up; DEC now \$3.9 billion leader of \$6 billion to \$8 billion minicomputer industry he invented. Olsen's shares recently worth about \$157 million.



Elbridge Hadley Stuart Jr.

Dwight Lyman Stuart

Brothers. Inheritance. Grandsons of Elbridge A. Stuart, founder Carnation Co. Paid \$25,000 for method of making good evaporated milk 1901, sold product personally, six cans at a time when necessary, until accepted in market. Elbridge Jr.: Bellevue, Idaho. 65. Married, 1 son. Rose to v.p. Carnation, quit 1961 over autocratic practices of CEO father, Elbridge Sr., who resigned 1971. Raises cattle, alfalfa; wife (Marion Butler Stuart) noted paleontologist. Dwight: Los Angeles. 58. Married, 3 sons by first marriage, 2 by second. Company president 9 years under Chairman & Chief Executive Officer H. Everett Olson (not related to family). Avoids limelight. Their portion family shares: Dwight, about \$155 million; Elbridge, over \$100 million.

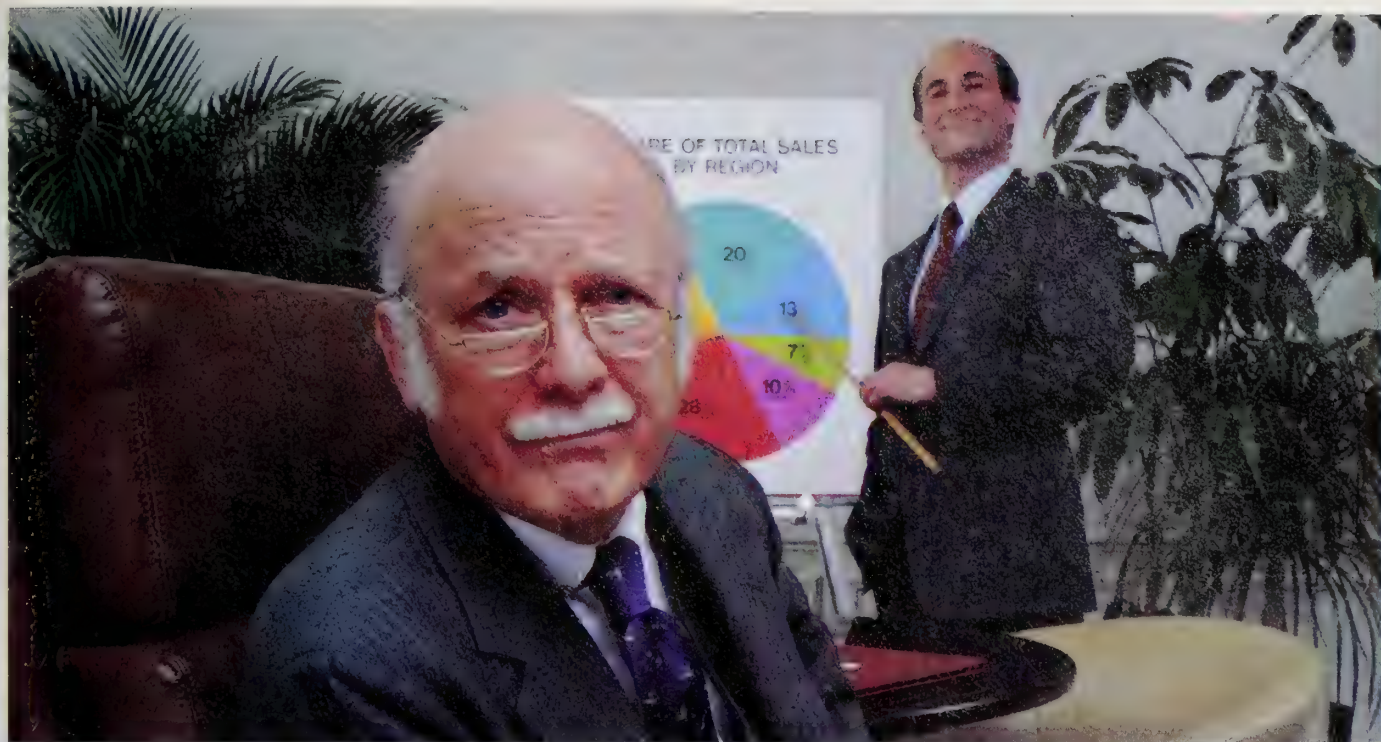
Jane Bancroft Cook

Inheritance. Sarasota, Fla. 70. Widowed 3 times, once divorced, 3 children. Granddaughter of Clarence Barron, who built up *Wall St. Journal*, Barron's, Dow ticker. With brother and sister (both deceased), inherited control Dow Jones & Co. 1949. Director of company since 1951 but little role in operations. Noted for Boston-area philanthropies, otherwise extremely private. Owns or controls 4.1 million Dow Jones shares, worth \$155 million.

Ernest Gallo

Julio Gallo

Wines. Modesto, Calif. 73, 72. Both married. Ernest, 2 children; Julio, 2 children. Started 1933 with \$5,900; now largest U.S. vintner. Friendly



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The more you look at the world's finest sports cars, the more you like the Mazda RX-7.

Mazda engineering has made it an exceptional sports car. And an uncommon sports car value. So uncommon, in fact, that the resale price of many RX-7 models is higher than the original manufacturer's suggested retail price.

The 1979 RX-7 S, for example, has a greater retained value than the '79 Porsche 924 or Datsun

1979 MODEL	RETAINED VALUE			
	80%	90%	100%	
Mazda RX-7 S				118.4%
Datsun 280ZX				86.9%
Porsche 924				82.3%

280ZX, according to the May-June 1982 Kelley Blue Book. And an impressive potential for resale.

But forget for a moment about the return on investment should you decide to sell an RX-7. Think instead of all the fun that's ahead when you decide to buy one. **Mazda RX-7 is a stimulating experience.**

Mazda engineers have designed the RX-7 to deliver a full measure of the enjoyment and stimulation that you demand in a world-class sports car. Yet never has the importance of fuel

economy been ignored. **Shaped for performance.**

RX-7's sleek exterior was created for aerodynamic efficiency. Its clean lines reduce the drag coefficient to a low 0.34. Superb aerodynamics, together with the powerful rotary engine, give the RX-7 the kind of performance that has carried it to the IMSA Camel

GTU race series championship in both 1980 and 1981.

Great balance, great handling.

With its front mid-engine configuration, RX-7 also has near-perfect balance. 51% of the weight rests on the front wheels, 49% on the rear. This close-to-ideal weight distribution, coupled with finely-tuned



49% ▲

FRONT MID-ENGINE DESIGN PROVIDES NEAR-PERFECT WEIGHT DISTRIBUTION

▲ 51%

30 EST.
hwy.
mpg
21 *EST.
mpg

suspension, delivers handling that only a true sports car can provide. **long list of standard features.**

Standard features on the 1982 Mazda RX-7 S include 5-speed over-drive transmission, AM/FM stereo with two speakers • Power antenna • Steel-belted radial tires • Front and rear stabilizer bars • Complete instrumentation, including tachometer, voltmeter, trip odometer, temperature and oil-pressure gauges • Analogue quartz clock • Remote control electric fuel door release • Tinted glass Mazda RX-7 prices start at \$9695 (base model); \$10,295 (GS model); \$12,095 (GSL model). **

By now, you should understand why we say the RX-7 is an exceptional sports car. And an uncommon sports car value. But is the company behind the car equally unique? Yes.

Mazda's philosophy is simple one.

Mazda is committed to building the best possible automobiles at the lowest possible cost.

This means using advanced technology to develop cars that meet specific driver needs for performance, economy and comfort. And engineering them to offer an uncommonly high level of quality and value at an affordable price.

One way we're keeping quality high and cost low is through methods that minimize waste and maximize productivity. For example, the implementation of a synchronized production system has both raised qualitative standards and significantly reduced overhead inventory

costs. It has also been a prime factor behind Mazda's remarkable 97.8% increase in productivity over the past five years.

People play the key role.

Many of the ideas for improving quality and productivity originate in Mazda Quality Circles. Each Circle is a mini-"think-tank" comprised of seven or eight employees who meet voluntarily on their own time to solve various job related problems. There are currently 2147 MQ Circles at Mazda, with more than 16,000 people participating.

Suggestions to improve operations are also made on an individual basis. In 1981 alone, employees contributed more than 1.7 million suggestions and more than 50% were adopted. The vast majority of these increased the efficiency of a specific work place, and helped to eliminate wasted time, motion and money in virtually all areas of the company.

Quality pays dividends.

Mazda's commitment to quality is paying impressive dividends, both corporately and to the more than one million people who buy our products each year in 110 markets worldwide. And it has helped to make the RX-7 the best-selling two-seat sports car in America.

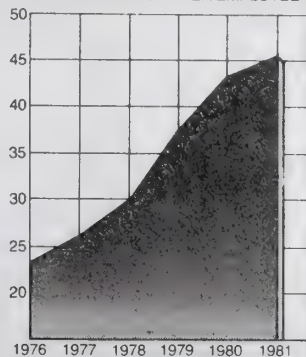
The more you look at the qualities of the company behind the car, the more you like the quality of a Mazda.

Mazda's rotary engine licensed by NSU-WANKEL.

**Manufacturer's suggested retail prices. Actual prices set by dealers. Taxes, license, freight, options (wide tires/al. wheels \$350-\$400) and other dealer charges extra. Prices may change without notice.

SOME ADDITIONAL INTERESTING FACTS ABOUT MAZDA:

VEHICLES PRODUCED PER EMPLOYEE



Mazda productivity has risen 97.8% in just 5 years.

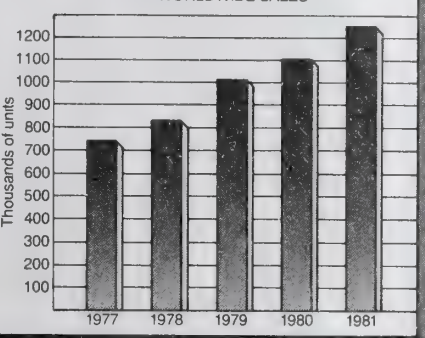
JAPAN'S LEADING MOTOR-VEHICLE PRODUCERS

Rank	Company	Total Units 1981
1	Toyota	3,220,418
2	Nissan	2,584,288
3	Mazda	1,176,608
4	Mitsubishi	1,094,793
5	Honda	1,008,927
6	Suzuki	578,876
7	Subaru	472,639
8	Daihatsu	472,254
9	Isuzu	457,242

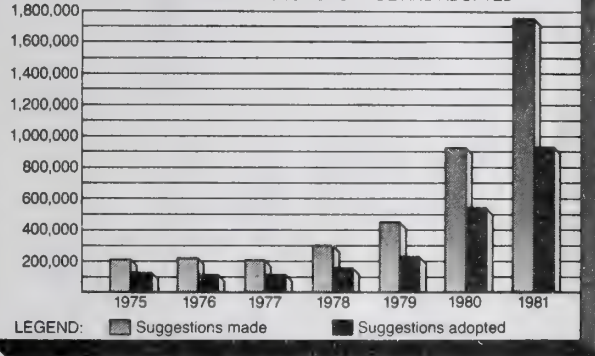
Mazda is the third largest motor-vehicle producer in Japan. We're also the ninth largest in the world.†

1,245,696 units were sold worldwide in FY 1981.

WORLDWIDE SALES



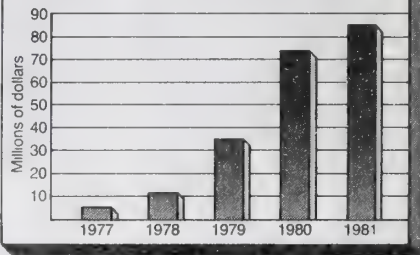
EMPLOYEE SUGGESTIONS MADE AND ADOPTED



The depth of Mazda employee involvement is shown by the number of suggestions made and adopted.

Net after-tax income was \$85.0 million.

NET INCOME



†Source: Japanese Automotive Manufacturers Association

FOR A FREE COPY OF THE 1981 MAZDA ANNUAL REPORT AND AN RX-7 CATALOG, SIMPLY FILL OUT THIS COUPON AND SEND IT TO:

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Attn: Mazda RX-7 Offer

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CITY _____

STATE _____

ZIP _____

FO _____

*1982 EPA estimates for comparison purposes. The mileage you get may vary with trip length, speed and weather. Actual highway mileage will probably be less. Calif. 30 Est. hwy mpg, 20 Est. mpg.

mazda

The Forbes Four Hundred

Julio made the wine; tough Ernest made the profits. Believed to have very substantial investment portfolio. Secretive; considered tough in trade. Estimated joint net worth: upwards of \$300 million.

William Edwin Moncrief Sr.

W. E. Moncrief Jr.

Oil. Ft. Worth. 87, 62. Sr. married, 1 child; Jr. married, 4 children. Sr. quit 1928 as v.p. Marlin Oil (later became Conoco) to go out on own. Three years of dry holes, then first find, turning out to be northernmost extension of vast east Texas field, 1931. Investor-partners 1940s, 1950s including Bing Crosby, Bob Hope, Randolph Scott. Jr. (Tex) in business since 1942. Together control international operation, oil and gas reserves estimated at over \$300 million.

Kenneth Stanley (Bud) Adams Jr.

Entrepreneur. Houston. 59. Married, 3 children. Part Cherokee. Son of late "Boots" Adams, heavy-handed builder Phillips Petroleum. Ken Jr.'s oil interests minor. He is best known as owner Houston (football) Oilers; most wealth in 15,000-acre Calif. rice and vegetable farm, Texas ranch and farmland. Also owns biggest U.S. Lincoln-Mercury dealership. Prompted old school chum Nelson Bunker Hunt to use famous wiretap "for embezzlers." Estimated net worth: over \$150 million.

Hiles Collier

Inheritance, investments. Naples, Fla. 35. Single. Grandson of Barron Gift Collier, Memphis-born pioneer streetcar advertising. Used \$5 million annual income to buy 1 million acres of southwest Florida early 1920s; state legislature renamed it Collier County. Runs 170,000 mostly undeveloped acres, oil and mineral rights, newspaper, New York venture capital firm, etc., inherited by his branch of family. "I work for aesthetic reasons more than for anything else." Estimated net worth: more than \$50 million.

Thomas Mellon Evans

Investments. NYC. 72. 3 children by first marriage. Remarried. As young man, had \$15,000 inheritance and a benefactor—W.L. Mellon (father was Mellon ally). Got control H.K. Porter 1937. Reputation: tough. By 1956 ready to found own brokerage firm to save on commissions. Took over Crane Co. 1959 and still chairman. Major holdings alone worth \$150 million.

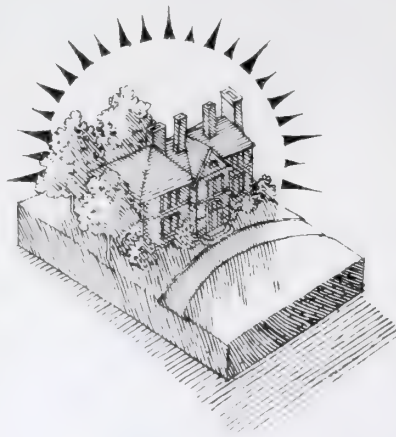
John Wilmer Galtbreath

Daniel Hauck Galtbreath

Father and son. Real estate. Columbus, Ohio. 85, 54. Father: remarried widower, 2 children by first marriage. Son: married, 3 children. John started as real estate broker, was ruined by Depression; recovered by arranging sales foreclosed property. Then hit on "package deals": Take signed-up corporate tenant, builder, blueprints, property in package to bank for full financing. Son Daniel heir apparent, runs family baseball team (Pittsburgh Pirates; own 99%). Their fortune today worth over \$300 million, including \$100 million Darby Dan Thoroughbred breeding farm with 6,000-foot runway for visitors' jets.

John Hendrix

Oil. Midland, Tex. 46. Married, 3 daughters. Was a petroleum engineer for Continental Oil Co. "Woke up one day and just felt it was time to leave." Started as independent at age 30, 1966; formed John Hendrix Corp. 1976. Large oil holdings Tex-



as, New Mexico; banks and timber in Arkansas. Estimated net worth exceeds \$150 million.

Belton Kleberg Johnson

Ranching. San Antonio and La Pryor, Tex. 52. Married, 3 children. Protégé of uncle, King Ranch patriarch Bob Kleberg, who willed him his boots. Bypassed as successor by family for less dominant personality; in 1976 sold his one-eighth share to family for \$70 million cash. Owns 100,000+ acres Texas and California, San Antonio's Hyatt Regency, etc. Estimated net worth: over \$150 million.

Carl C. Landegger

George F. Landegger

Brothers. Industrialists. Carl: NYC area. 51. Married, 5 children. George: homes in Europe and Connecticut. 44. With mother co-own father's company, Parsons & Whittemore, world's leading builder and prominent owner of pulp and paper mills. Carl born Vienna; George, London, both naturalized 1946, inherited 1976. For relaxation, new patriarch Carl digs for Inca relics, tramps Amazon jungle. Probable book value of company, if public: over \$300 million.

Richard J. C. Neill

Alice C. Neill Avery

Brother and sister. Inheritance, real estate. Grandfather Richard, immigrant Irish cattle-buyer, bought (1882) and managed vast S. Calif. ranch for Comstock Lode millionaire for half-interest. Grandchildren inherited O'Neill Ranch 1943; 11,000 acres sold throughout Seventies, kept 43,000 acres (Rancho Mission Viejo), with developments all around, land is worth perhaps \$8,000/acre "if anybody would still want to buy anything that size." Richard: San Juan Capistrano, Calif. 59. Married, no children. A local political power. Alice: West L.A. 65. Divorced, remarried, widowed; 3 sons. Second husband nephew of Sewall Avery, former chairman Montgomery Ward. Shared ranch worth estimated \$300+ million.

Grover Connell

Food. Westfield, N.J. 64. Married, 3 children. Took over family business, Connell Rice & Sugar Co.,

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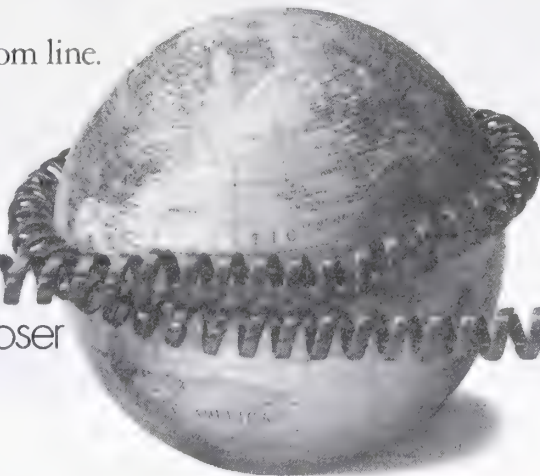
Examples Of Overseas Rates For Dialable Countries*				
Dial Rate				
Region	Rate Levels	First Minute	Additional Minute	Hours
UNITED KINGDOM/IRELAND	Standard	\$2.08	\$1.26	7am-1pm
	Discount	1.56	.95	1pm-6pm
	Economy	1.25	.76	6pm-7am
EUROPE	Standard	\$2.37	\$1.33	7am-1pm
	Discount	1.78	1.00	1pm-6pm
	Economy	1.42	.80	6pm-7am
PACIFIC	Standard	\$4.22	\$1.58	5pm-11pm
	Discount	3.17	1.19	10am-5pm
	Economy	2.53	.95	11pm-10am

*For countries that are not dialable, there is a 3-minute minimum and rates are somewhat higher. Different rate schedules apply to Canada and Mexico. Check with your local operator. Federal excise tax of 1% is added on all calls billed in the United States.



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The Forbes Four Hundred

1950 (sales \$10 million). Now largest U.S. broker, trader in rice and sugar (sales \$600 million). Also food and machinery exports; leasing. Charges of illegal dealings with Tongsun Park, Korean wheeler-dealer, dismissed 1979 after Park changed testimony. Estimated net worth: over \$150 million.

Albert Buckman (Buck) Wharten III

Inheritance. Vernon, Tex. 35. Married, no children. Great-grandson legendary Texas rancher and oilman W.T. Waggoner (see also *Electra Waggoner Biggs*). Named sole heir his branch of family in court battle 1969 while serving as sergeant in Army. His half Waggoner ranch (510,000 acres, oil) worth estimated \$150 million; other assets worth several million.

Gerald Douglas Hines

Real estate. Houston. 56. Married, 2 children. Sold air-conditioning systems 1950s. Real estate sideline became full-time occupation in 1957. Worth \$6 million 1966 when managed to win bid to build Shell Oil its 50-story Houston HQ. Later built famed Galleria, etc., went nationwide 1973. Often equity partners involved. Estimated net worth: probably over \$150 million.

Fit, Eugene Dixon Jr.

Inheritance. Philadelphia. 59. Married, 2 children. Great-grandfathers: P.A.B. Widener, streetcar magnate, died 1915, worth \$100 million; William Elkins, died 1903, worth \$30 million. Primary heir to both. Taught 16½ years at Episcopal Academy, his prep school, "the happiest days of my life." Left to tend family fortune 1960. Philanthropic. Recently sold pro basketball 76ers. Estimated net worth: probably over \$150 million.

Robert B. Sutton

Oil reseller and producer. Breaux Bridge, La. 49. Divorced, remarried, 4 children. College dropout; worked for Sun Oil. Bought tire store franchise. Personal bankruptcy 1970. Tried oil brokerage; business mush-

roomed thanks to energy crisis. Accused of selling "old" oil as "new"; acquitted 1982. Estimated net worth: probably still over \$150 million, though oil resale business dropping.

Charles Robert Allen Jr.

Herbert Allen

Herbert Anthony Allen

Stock market, real estate. NYC. Charlie: 79. Twice divorced; 3 children by first marriage. Brother Herbert: 74. Widowed, remarried; one son. Herb Jr.: 42. Divorced, 4 children. Charlie may be canniest investor of all time (but see also Warren Buffett). Wall St. runner at 15; set up as bond trader 1923, with \$1,000, desk, phone. Brought in brothers, including Herb, 1928. Made \$1 million by 1929, lost it in Crash. Herbert (now retired; in oil, horses) instrumental in rescuing firm with Depression bond trades. Since 1930s, endless series Charlie's spectacular stock deals with hundredfold profits. Firm's entrepreneurial style unusual even for Wall Street. Staffers pay own expenses, must take a piece of every venture they convince Allens to back. Charlie's biggest coup: Bought \$1 million Syntex 1958, sold \$58 million, still owns \$50 million. "A feeling, backed with common sense. I never buy anything without that feeling." In Irvine Ranch deal (12%). Herb Jr. joined 1964. Profits from best-known deals alone exceed \$300 million; many less known.



Armand Hammer

Entrepreneur. Los Angeles, NYC, Moscow. 84. Twice divorced, remarried, 1 son. Trained as physician. Soon began trading U.S. grain for U.S.S.R. fur and gems 1920, made pencils for Lenin 1925, bought "worthless" Soviet notes Stalin paid off at face value; successful U.S. business career 1940s, 1950s; built Occidental Petroleum into giant based on Libyan oil 1960s; more recently presided over major diversification into coal, meat packing. Art held in West worth over \$50 million; more held in Russia. Estimated net worth: over \$150 million.

Robert A. Hefner III

Natural gas. Oklahoma City. 47. Widowed, 3 children. Grandson of Robert E. Hefner ("The Judge"), Oklahoma City. Studied geology, founded private GHK Co. 1967, thought deep gas could be profitable. Drills deepest gas wells in the world (35,000 feet). Interests in 275 such wells. Reportedly salvaged \$30 million loan from Penn Square bank days before collapse. Stylish: "more apt to fly to Paris than Vegas for the weekend." Estimated net worth: at least \$150 million.

Floyd Roger Hardesty

Builder. Tulsa. 44. Married, 2 children. Rural carpenter's son; left school to marry at 15, do construction work. Borrowed \$75,000 1958 to build houses; switched to apartments, shopping centers 1960s. Formula: build simple and cheap "for the masses," and fast: 6 months, vs. usual 18-24; pay piecework and incentive scales. 6'4", 240 lbs., flies own Boeing 727; no one tries to take his 6-carat diamond ring. His estimate of Hardesty Co. net worth: \$106 million. Partnership interests may put his total net worth over \$150 million.

Morton Blaustein

Ruth B. Rosenberg

Henry A. Rosenberg Jr.

Inheritance. Baltimore. Morton: 55. Married, 2 daughters. Aunt Ruth: 83. Her son Henry: 52. Married, 3 sons. Ancestors invented gasoline pump, founded Amoco, merged into Standard of Indiana for 5¼ million shares 1954. Henry runs 49%-

owned Crown Central Petroleum. Substantial real estate, oil tankers, bank stock, etc. Numerous philanthropies. Share fortune substantially greater than \$400 million.

Electra Waggoner Biggs

Inheritance. Vernon, Tex. 63. Widowed, 2 daughters. Granddaughter of legendary north Texas rancher, early oilman W.T. Waggoner. He accumulated 510,000 acres. ("I don't want to buy all the land in Texas; just the land that's adjacent to mine.") Drilling for water, hit fabulous Electra oil field 1911. Died 1934. Her half of Waggoner ranch worth estimated \$150 million. Accomplished sculptress. (See also Albert Wharton.)

James R. Cargill

Margaret Cargill

Brother and sister. Cargill, Inc. Grandchildren of William W. Cargill (d. 1909), founder of grain-trading giant Cargill Inc. (see *Cargill-MacMillan family*). James: Minneapolis. 59. Married, 3 children. Joined company 1947, rose to vice president 1963. Has office in company headquarters, but said to work mainly on own business affairs. Margaret: La Jolla, Calif. 62. Unmarried. Little known. Said together to own their family branch's 21% Cargill stock, worth estimated \$300 million.

Roy Edward Disney

Walt Disney Productions, broadcasting. Los Angeles. 52. Married, 4 children. Nephew of late Walt Disney. Father Roy O. (d. 1971) was the quiet business manager. Roy E. left company 1976 after losing power struggle with Walt's son-in-law Ron Miller (now CEO). "Walt would have been fed up by now with all those boring little kids solving mysteries." Still director; holds 4.96% of shares. Owns production studio; TV, radio stations as Shamrock Broadcasting. Estimated net worth: approximately \$150 million.

William Stamps Farish III

Inheritance. Houston. 43. Married, 4 children. Grandson, namesake of cofounder Humble Oil, now big part of Exxon. Principal heir of family fortune based on Exxon stock; other assets including Thoroughbred

farms Ky., Tex. worth est. \$30 million; also founded number of natural resources cos. Net worth many times that. Guesstimates between \$100 million and \$200 million. (Guest at wedding of a Farish and a du Pont: "This is the first time a du Pont ever married for money.")

Ben Hill Griffin Jr.

Citrus grower. Avon Park, Fla. 71. Married, 5 children, 1 stepchild. Father was small citrus grower: "I didn't know there was any business but citrus." Started 1933 with wedding gift: 10-acre grove. Added acres when he could: "It always seemed like times were pretty tough because I was so stretched out." Now owns 10,000 acres, packing plants, ranches, etc.; Ben III active in business. Estimated net worth: approximately \$150 million.

John W. Hecom Jr.

Inheritance, oil. Houston. 42. Married, 4 children. Father started 1936 with borrowed \$700, drilled oil fields abandoned by others. By 1960s, \$250 million empire; overextended; in bankruptcy 1970-71, emerged with 70% of assets. Sr. died 1981. Jr. owned New Orleans Saints from 1967; now Houston watches how well he does in oil and real estate. Estimated net worth: about \$150 million.

Yoko Ono

Inheritance. NYC. 49. Divorced, widowed, 2 children. Born to banker in Tokyo, moved to Scarsdale 1951, attended Sarah Lawrence. Married Beatle John Lennon 1969. Ran Lennon business empire: houses, cattle, music companies, copyrights, etc.; he became world's richest househusband. Tells reporters she bases decisions on astrology, deliberately never smiles in public. Lennon fortune estimated at \$150 million.



E. Claiborne Robins

A.H. Robins Co. Richmond, Va. 72. Married, 3 children. Joined family business 1933 (sales, \$4,800). Emphasized low-key, friendly touch to detail men selling to drugstores; company developed Robitussin, bought Chap Stick and Sergeant's pet products. Sales now over \$456 million, 75% prescription drugs. Stock collapsed 1974 after serious FDA charges, product withdrawn voluntarily, stock still low. With family, his shares worth about \$150 million.

Robert Shelton

Ranching. Kerrville, Tex. 46. Married, 8 children. With half-brother Belton Kleberg Johnson, sold out his 14% share in King Ranch 1978 after outvoted in family succession parley. Took land, other assets instead of cash, retained 11.2% interest in oil royalties. Land of own in Tex., Fla., Mont. Estimated net worth: approximately \$150 million.

Clayton Williams Jr.

Oil. Midland, Tex. 50. Married, 5 children. In 1967 a \$10,000/year insurance salesman "until I sold to all my friends and relatives and had to get another job." Switched to oil. In 1976 pioneered Austin Chalk play, went out on far end of financial limb, leased 330,000 acres; 100% success rate. Still leveraged: \$600 million assets, \$400-million-to-\$500-million bank debt. "I am a warrior!"

Hortimer B. Zuckerman

Real estate. Boston. 44. Single. Bought venerable, ailing *Atlantic Monthly* in 1980. Harvard law degree; made first \$5 million working for Cabot, Cabot & Forbes. Sharp mind. ("You and I own calculators, right? Mort doesn't.") On own since 1970. Has over 5 million square feet of space built, 7.5 million building, suburban Boston, Washington, Los Angeles. Estimated net worth: \$150 million.

Max Martin Fisher

Refiner. Detroit. 75. Married, 5 children. Penniless immigrant's son who personally bankrolled Israeli petrochemical industry in 1950s. Founded refiner of low-grade crude 1932; sold 1959 for Marathon Oil stock (lately about \$100 million). Heavy real estate investor, key

The Forbes Four Hundred

backer Detroit Renaissance Center. Gives one-half annual income to charity. Estimated net worth: perhaps \$150 million.

Charles A. Yose Sr.

Charles A. Yose Jr.

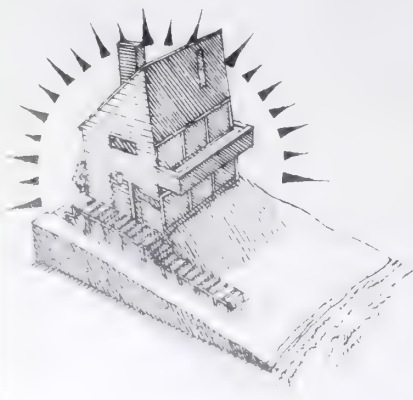
Banking. Oklahoma City. 81, 38. Charles Sr. was small-town banker who grew with Okla. City. Family took control state's largest bank, First Oklahoma Bancorp, 1945, holds 25%. With son Charles Jr. (CEO), built fortune as financier of, sometimes controlling, numerous small banks. Latter recently acquired nearly half Fourth National Corp., Tulsa. Also real estate. Avoids the press. With Ed Gaylord (*which see*) and Sylvan Goldman (*which see*), the power triumvirate of Okla. City. Share fortune estimated near \$300 million.

Robert W. Galvin

Motorola. Barrington, Ill. 59. Married, 4 children. Father founded Motorola 1928 on \$565, made car radios. Only son, groomed from childhood, became chairman 1959. Expanded company enormously, became leading producer microprocessors 1970s. Controls stock worth some \$147 million.

Robert Yesco

Fugitive. Caribbean area. In 1972, consultant for Bernie Cornfeld's IOS, Ltd.; disappeared with \$224 million; invested it in Panamanian and Costa Rican corporations. Lived in Costa Rica, then Bahamas, now man without a country, believed living on yacht. Big unknown: How much did it take to bribe 2 coun-



tries? Said to have guided missiles on yacht. Estimated net worth: still far in excess of \$100 million.

Josephine E. Abercrombie

Inheritance. Houston. 55. 5 divorces. Daughter of J.S. Abercrombie (oilman; inventor blowout preventer). Owns 8.3% Cameron Iron Works. Has ranch south Tex., oil operation, 95 acres Houston area. Net worth well over \$100 million.

Loris Jones Stein

Inheritance. Los Angeles. 80. Widowed, 2 daughters; 2 sons by first marriage. Late husband, Jules Stein, former ophthalmologist who founded MCA, Inc. 1924. Prompted his philanthropies for eye research; is board member Jules Stein Eye Institute. Collects English antiques. On Stein's death 1981, inherited bulk of his \$150 million estate.

Frank Batten

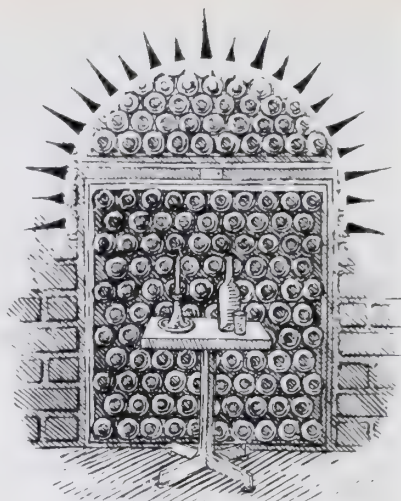
Newspapers, TV, cable. Norfolk, Va. 55. Married, 3 children. Landmark Communications built up by uncle, S.L. Slover, from 1900. Batten's father died early, so Frank brought up by Slover. Took over company 1954 at age 27; reshaped; began aggressive expansion 1963. Heavy emphasis on cable, now 25% of revenues (est. total 1982: \$225 million). Estimated net worth, including trusts for relatives: at least \$140 million.

John Werner Kluge

Broadcaster, salesman. NYC area. 67. Married, 2 children. German-born; moved with American stepfather to Detroit 1922. Put self through Columbia ('37). Known for 20-hour workdays. Began Washington, D.C. radio station 1946; distributed Fritos, silver polish; bought real estate. Other ventures. Bought control DuMont Broadcasting 1958; now called Metromedia, Inc. Estimated net worth: \$140 million.

William S. Paley

Broadcasting. NYC. 80. Widower, once divorced, 4 children, 2 stepchildren. Started wealthy from father's cigar company. Bought con-



trol of failing radio network 1928, now CBS. His stock: \$90 million. Art collection said to be worth tens of millions; his investments run by personal staff in "Black Rock" (CBS headquarters). Estimated net worth: \$140 million.

Nathan Cummings

Industrialist. NYC. 85. Once widowed, once divorced, 3 children. Built Consolidated Foods from \$16 million sales 1939; bought General Dynamics stock 1960s with Henry Crown at around \$10; after splits, those shares now worth about \$135 each. Impressionists, Postimpressionists, once bought by square foot, worth many millions. At 80, threw Waldorf-Astoria birthday party for 635; Bob Hope starred. At 85, ill, gave \$5 million to Sloan-Kettering instead. Estimated net worth: well over \$100 million.

Dominique de Menil

Inheritance. Houston. 74. Widowed, 5 children. Heiress-daughter of Conrad Schlumberger, cofounder Schlumberger, Ltd. Moved to Texas 1941 with husband, Jean (son of French baron; Schlumberger chairman 1967-70). Naturalized 1962. Family has steadily sold shares, diversified over many years; her collection of surrealist art is valued in excess of \$50 million. Noted philanthropist; building a museum for her collection to bequeath to Houston. Estimated net worth: well over \$100 million.

Clarence Douglas Dillon

Investments. Far Hills, N.J. 73. Widowed, 2 children. Father was son of Polish immigrant, took grandmother's maiden name, became leader of

1920s Wall St. establishment as Dillon, Read & Co. C. Douglas: distinguished public service (Sec. Treasury 1961-65; chairman Met. Mus. of Art, NYC). Sold Dillon, Read 1981 for \$18 million. Dillon's net worth, with family, including Chateau Haut-Brion (France): well over \$100 million.

Howard Vollum

Tektronix, Inc. Portland, Ore. 69. Married, 4 children. After WWII went to work in radio and appliance shop; designed better, cheaper oscilloscope in back room. Started business 1946, stayed better and cheaper. Now \$1 billion-plus revenues, 10% net margins, 800-product line of oscilloscopes and related. His 3.6 million shares recently around \$135 million.

James Emmett Evans

Oranges. Dade City, Fla. 82. Married, 1 son, 1 daughter. Saved money from his Ford car dealership, bought 20-acre orange grove 1920. Expanded to over 17,000 acres orange groves, 4,000 in grapefruit, in 7 Florida counties. "I'm proudest of my wealth." Maintains low profile; nearly deaf. Estimated net worth: about \$135 million.

Kirk Kerkorian

Trader. Las Vegas. 65. Twice married, once divorced, 2 children. Bought, sold \$100 junk cars 1930s, \$10,000-to-\$100,000 DC-3s after WWII; built airline to support his trading, sold to Transamerica 1968 for \$104 million. Broke even buying, selling Western Airlines 1970s. Big profit in Columbia Pictures 1981. Owns majority both MGMs. Despite MGM price collapse, net worth around \$133 million: "Cash reserve to carry through bad times. That's about as important as good management."

Tom E. Turner

Sigmar Corp. San Antonio. 68. Married, 2 children. Pumped gas nights for \$10/week in Depression; borrowed \$350 to open first gas station 1943. Built chain Texas, La.; began integrating outward 1955: acquired suppliers, gasoline trucks, radio stations (advertising); diversified to pipe and tubing 1971. Sold out to Diamond Shamrock this year \$17.50/share. His, wife's 9.5 million shares should go for \$133 million.

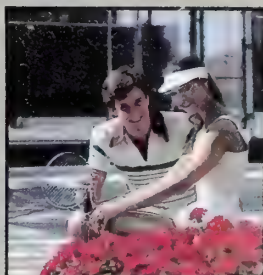


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Carl H. Lindner II

Banking, insurance. Cincinnati. 63. Married, 3 sons. Started small milk store 1940. Built chain using high leverage. Entered savings and loan business 1950s as American Financial Corp. using high leverage; casualty insurance 1971 using high leverage. Went private 1981 using high leverage. Now AFC assets \$4 billion. Says shareholder's equity \$132 million.

Catherine Mellon Conover

Inheritance. Washington, D.C. 46. Twice divorced, 3 children by first marriage. Received \$100 million in trusts from father Paul, grandfather Andrew Mellon. First husband, John Warner, now also separated from Elizabeth Taylor. Legally changed name to mother's maiden name after second divorce. Estimated net worth, assuming trusts stayed even with inflation: over \$130 million.

Wilhelmina du Pont Ross

Mrs. Donald Peabody Ross. Inheritance. Greenville, Del. 76. Widowed, 3 children. Niece of Pierre Samuel (*see du Pont family*); received 4% share when he distributed his wealth 1924. Husband in family partnership to found Delaware Park racetrack, 1937. Hobbies: gardening, breeding of horses and hunting dogs. Estimated net worth: above \$130 million.

Robert Winship Woodruff

Coca-Cola. Atlanta. 92. Widower, no children. Left college, bored, at 20; rose to v.p. at White Motor, started buying Coke stock as investment. Father formed syndicate to buy Coca-Cola in 1919. Became president Coca-Cola at 33. "I want everyone associated with Coca-Cola to make money." "Retired" 1955. With \$500 million in foundations, still owns 3.5 million shares worth \$130 million, other assets.

Ray Hampton Park

Newspapers, broadcasting. Ithaca, N.Y. 71. Married, 2 children. Farm boy who worked way through N. C. State. Cofounded Duncan Hines

cake-mix business, merged into Procter & Gamble 1956. Started Park Broadcasting, Inc. 1962: now a chain of radio stations, TV stations, local newspapers worth estimated \$130 million. Noted for determination; lifelong workaholic.

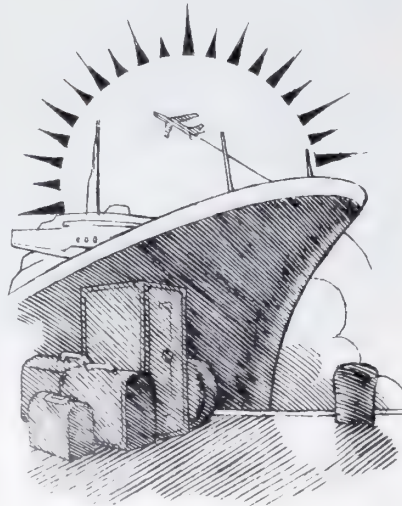
Generoso Paul Pope Jr.

National Enquirer. South Palm Beach, Fla. 55. Widowed once, divorced once, remarried, 6 children. Edited *Il Progresso Italo-Americano*, worked for CIA, quit, bought *Enquirer* 1952 for \$75,000: circ. 17,000. "Beefed up" editorial content. Circulation zoomed 1970s after switch to "uplift," big marketing push to supermarket chains. Today, circulation 5.5 million; value estimated at \$130 million.

Sigfried Weis

Robert F. Weis

Weis Markets, Inc. Sigfried: Lewisburg, Penna. 66. Robert: Sunbury, Penna. 63. Cousins. Both married, each 3 children. Their fathers started little corner grocery 1912. Now 111 supermarkets, mostly in depressed central Penna.; margins are more than twice industry average. Secret: careful controls on cost, quality and especially vendor and employee "shrinkage." Mild-mannered Sigfried, president, collects antiques, has shares worth about \$130 million; behind-the-scenes Robert, v.p. and treas., has shares worth about \$100 million.



Saul Phillip Steinberg

Leasco; Reliance Group Holdings. NYC. 43. Divorced once, separated once, 4 children. Founded Leasco 1961; commenced career wheeling and dealing, stepping on toes. Attempt to take over Chemical Bank failed 1969. Acquired Reliance Insurance 1968. At prices offered when he took both private in 1982, his shares (with immediate family) worth about \$130 million.

Ernest H. Cockrell

Oil. Houston. 37. Married, 2 sons. Grandfather bought cheap oil leases south Louisiana; "real lucky or real smart." Father ran company till his death 1972. Took 6 years to settle estate, get company from executor. Ernie took over 1978, has made several "nice" discoveries since. Estimated net worth: about \$130 million, mostly Louisiana gas.

Irénée du Pont Jr.

Irene Sophie du Pont May

Margaretta Lamont du Pont Greenewalt

Constance Simons du Pont Larden

Eleanor Francis du Pont Rust

Marianna du Pont Silliman

Cecilia Mary du Pont Bredin

Lucile Evelina du Pont Flint

Brother and sisters. Inheritance. Children of Irénée Sr. (d. 1963), president Du Pont Co. 1919-26, played major role in building company (*see du Pont family*). Irénée Jr.: Christiana Hundred, Del. 62. Married, 6 children. Retired as senior v.p. Du Pont Co. 1978—"I as a stockholder would have objected to me as president." Helps oversee family trusts, foundations. Irene Sophie (Mrs. Ernest May): Wilmington, Del. 82. Married, 4 children. Husband considered family radical (supported Castro), as coexecutor fought family's effort to reduce tax on Irénée Sr.'s estate. Margaretta (Mrs. Crawford H. Greenewalt): Greenville, Del. 80. Married, 3 children. Husband most successful du Pont in-law—Du Pont Co. president

1948-62, present with Fermi at first controlled nuclear reaction in Chicago 1942. Constance (Mrs. Colgate W. Darden Jr.): Norfolk, Va. 78. Widowed, 2 children. Husband (d. 1981) governor of Va. 1942-46, as pres. of U. of Va. tried to abolish fraternity system on campus. Eleanor (Mrs. Phillip Gordon Rust): Thomasville, Ga. 75. Married, 4 children. Marianna (Mrs. Henry H. Silliman): Montchanin, Del. 71. Married, 6 children. Husband v.p. at family's brokerage firm, active in family's small mutual funds. Octavia (Mrs. John Bruce Bredin): Greenville, Del. 69. Married, 6 children. Husband director of family bank (Wilmington Trust), active in other Del. business interests. Lucile (Mrs. Robert B. Flint): Greenville, Del. 66. Married, 5 children. She has sat on board of a family foundation. Observer: "All Irénée's daughters ever did was marry." All eight share roughly equally in father's fortune left in trusts, etc.; total net worth probably exceeds \$1 billion.

John Eleuthère du Pont

Jean Ellen du Pont Sheehan

Evelyn Rebecca du Pont

William du Pont III

Brother and sisters. William III half-brother. Inheritance. Children of William Jr. (d. 1965), who was grandson of Henry (Boss) du Pont (d. 1889), organizer original Gunpowder Trade Assn. 1872. John: Newtown Square, Penna. 43. Unmarried, lives with mother. Intense private athlete. "I run in the woods a lot or swim underwater; it's a great way to avoid people." Near-world-class in pentathlon. Noted scholar (founded Delaware Mus. Nat. Hist., gave it personal collection 250,000 seashells, then world's largest in private hands). Jean (Mrs. William Mason Sheehan): Coral Gables, Fla. 59. 3 marriages, 2 divorces; 4 children by second husband. Horsemaster. Said to resent naming of second husband instead of herself to run father's bank, Delaware Trust. Evelyn: 57. Divorced, remarried. Has stayed out of public view since helping auction late father's furniture. William III: El Paso, Tex. 30. Unmarried. Son of 1940s tennis star Margaret Osborne. Owns stud farm in Ky. and part-interest in *Thoroughbred Record*, weekly trade magazine. Father left \$50 million to each of 5 children; if kept even

with inflation should be over \$125 million now (fifth child, William Henry, who changed name to Henry E.I. in 1973 and is full brother to John and sisters, has suffered severe business losses, believed worth much less).

Gordon E. Moore

Intel Corp. Santa Clara, Calif. 53. Married, 2 children. As newly-minted Caltech Ph.D, recruited by William Shockley, coinventor of transistor, to join Shockley Semiconductor 1956. Left 1957 to cofound Fairchild Semiconductor. Started Intel 1968 with approximately \$2 million backing, introduced silicon-gate metal oxide semiconductor, the basic chip technology. Estimated net worth: more than \$125 million.

Robert Staples Howard

Newspapers. Rancho Santa Fe, Calif. 57. Married, 4 children. Started on hometown (Minn.) weekly, bounced from paper to paper, state to state after WWII. Howard Publications bought first paper, *Casper* (Wyo.) *Star-Tribune*, 1961. Now has 18 dailies, circ. 410,000; TV station, getting into cable. Estimated net worth: over \$125 million.

Helen Kinney Copley

Newspapers. San Diego. 59. Widowed, 1 son. 13 years as secretary to news magnate James S. Copley, who married her 1965. Out of limelight until his death 1973. Realized Copley papers poorly managed, run as political forum (right wing). She sold unwanted properties, chopped away thick bureaucracy, improved editorial content. Her 90% interest, other assets, now probably worth over \$125 million.

Samuel Gary

Oil. Denver. 55. Married, 2 children. In 1967 picked up leases on 40,000 acres "everyone" knew had no oil. Drilled 35 dry holes; financed by whittling interest to 30%. On 36th try, hit pool with at least 110 million bbls. His share of remaining reserves worth over \$125 million. Gary Operating Co. in forefront of enhanced recovery techniques.

Harvey R. (Bum) Bright

Oil, trucking. Dallas. 61. Widower, remarried, 4 children by first marriage. Moved to Texas from Okla.

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1928; started as wildcatter; recently bought out longtime partner. Also recently sold his East Texas Motor Freight (rev. \$200 million): "I'm mainly in the oil business now." Estimated net worth: more than \$125 million.

Estée Lauder

Joseph Lauder

Leonard Lauder

Ronald Lauder

Cosmetics. NYC. Operate Estée Lauder, Inc., 3rd-largest U.S. cosmetics and perfume company (estimated revenues about \$1 billion). Estée: "no specified side of 70." Uncanny sense of fragrances; in tune with whims of high-priced cosmetics market. "Blue Lady" (her color) now reigning doyenne of cosmetics. Husband Joseph: late 70s. Co-founder 1946 with wife: "In those days I was the [cosmetics] mixer." Still runs company factories. Son Leonard: 49. Married, 2 children. Pres. since 1972 and recently named CEO. "Our ads have not changed in 20 years; they haven't had to." Son Ronald: 38. Married. Family company's executive vice president; supervises rapidly expanding, if less profitable, overseas operations: "We are laying the basis for the next 20 years." All four share ownership, control of company worth more than \$500 million.

William Lee Lyons Brown Jr.

Cusley Brown Frazier

Cousins. Bourbon. Louisville, Ky. Great-grandchildren George Garvin Brown, founder Brown-Forman Dis-

tilleries (Jack Daniels, Early Times) 1870 to make medicinal whiskey. Company stayed with premium products. Six family members in company, also numerous relatives of other employees: "If a man is hard-working, loyal and bright, chances are his son will be." William: 46. Married, 3 children. Joined company 1959, CEO since 1975. Owsley: 47. Married, 3 daughters. Joined 1955; sr. v.p. since 1968. William controls estimated \$125 million, Owsley \$93 million of family shares; value of which exceeds \$332 million.

John Earl Tubor

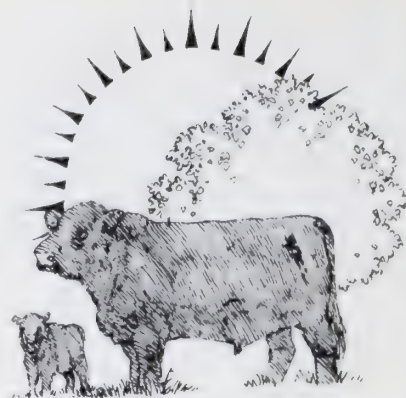
Broadcasting, baseball. Kalamazoo. 81. Married, no children. Early ham operator, saw possibilities when correspondent ham put phonograph music on air. First station 1920; traded air time for groceries during Depression. Bought 100% Detroit Tigers 1962. Currently 4 radio, 4 TV stations, 2 cable systems (one with Time Inc.), Muzak franchise for Michigan except Detroit. Student Buddhist philosophy: "I don't own anything, my possessions all own me." Estimated net worth: \$125 million.

David William Grainger

Motor distributor. Skokie, Ill. 54. Married, 3 children. Father, W.W. Grainger, now 87, founded W.W. Grainger, Inc. 1927, on \$6,000 borrowed from wife. Puts out *Motor-Book* catalog, published from 1927, a household word among contractors, small manufacturers, etc. "The consumer shouldn't know the Grainger name." Family stock worth some \$123 million.

Charles A. Payson

Entrepreneur; inheritance. Portland, Me. 83. Widowed, remarried, 5 children (1 deceased). Got \$3 million from first father-in-law, William Payne Whitney, obtained patent on stainless steel 1927. Merged company into, was longtime director of, Armco Steel. Also owned sugar plantations Jamaica and Cuba, later sold; other interests. Lately horse breeding, cattle. Has one-third interest in trust from estate of first wife, Joan Whitney Payson (owned baseball Mets; d. 1975).



Hunts quail every weekend Nov.-Feb., said to be crack shot. Estimated net worth: over \$120 million.

Jack H. Berry, Jr.

Oranges. Winter Haven, Fla. 65. Married, 3 children. Left Tennessee for NYC, became wealthy fruit broker. In 1950s supermarkets bypassed brokers; he decided money was in growing. Gambled on south Fla. (soil supposedly too wet for orange trees); in 1960s planted 600,000 on 6,000 acres. Now has about 14,000 acres, own concentrate plant. Estimated net worth exceeds \$120 million.

Howard Phipps Jr.

Inheritance. Westbury, N.Y. 48. Married, 3 children. Grandson of 19th-century steel magnate Henry Phipps (see Phipps family). Lives quietly; represents his branch of family on Bessemer Trust board; active in NYC cultural world. His interest in Phipps' family Bessemer fortune approximates \$120 million.

Katharine Graham

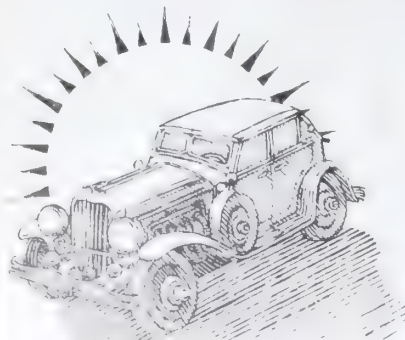
Washington Post Co. Washington, D.C. 65. Widow, 4 children. Father Eugene Meyer, Wall Street banker, bought *Post* at bankruptcy 1933; she and husband took over 1948. Since his death, has run company. Now son Donald is *Post* publisher. Family stock holdings alone exceed \$100 million; she controls majority of *Post* Co. voting stock.

W. Duncan MacMillan

John Hugh MacMillan III

Marion MacMillan Pictet

Brothers and sister. Cargill, Inc. Children of John Jr., ran Cargill 1936-60; died 1960. Duncan: Way-



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zata, Minn. 52. Married, 4 children. Has long run Waycrosse, Inc., Cargill-MacMillan family's (*which see*) private investment firm; Cargill director. Hugh: Ft. Lauderdale, Fla. 54, married, 6 children. Lives quietly; not active. Marnie (Mrs. Pictet): Geneva, Switz. 49. Divorced, remarried; 2 children, 1 deceased. Out of the country most of the time. Share their family branch's approximately 33% of Cargill stock, worth estimated \$350 million.

Lew R. Wasserman

MCA, Inc. Beverly Hills & Palm Springs. 69. Married, 1 daughter. Went to work for MCA founder Jules Stein 1935; quickly became top agent. Rose to president 1946. "In those days agents wore plaid suits and purple shirts. I changed all that to gray flannel." Has run "The Machine" ever since. Noted for philanthropy. His 1.9 million shares worth over \$115 million.

Joseph A. Albertson

Supermarkets. Boise, Idaho. 75. Married, 1 daughter. Opened Boise grocery 1939 with \$5,000 life savings, borrowed \$7,500. Developed into Albertson's, ninth-largest U.S. supermarket chain (1981 revenues, \$3.5 billion): "You have to be a consumerist." One experiment: Blew fresh-baked bread smell through store to stimulate buyers. Estimated net worth: \$115 million.

Mel Swig

Richard Swig

Richard Dinner

Brothers and brother-in-law. Real estate. San Francisco. Sons, son-in-law of Ben Swig, who operated in Boston while partner Jack Weiler operated in NYC (*see below*); moved to San Francisco 1946; bought commercial property, developed exclusive 4-hotel Fairmont chain. Split 50-50 with Weiler, except hotels (Weilers recently sold). Died 1980. Mel: 65. Married. Heads real estate operations; once owned predecessor of Minnesota North Stars. Richard: 57. Married. Runs hotels. Brother-in-law Richard Dinner: 61. Widower. Partner in insurance firm; par-

ticipates in management other businesses. All share equally in fortune estimated at well over \$300 million.

Jack L. Weiler

Alan Weiler

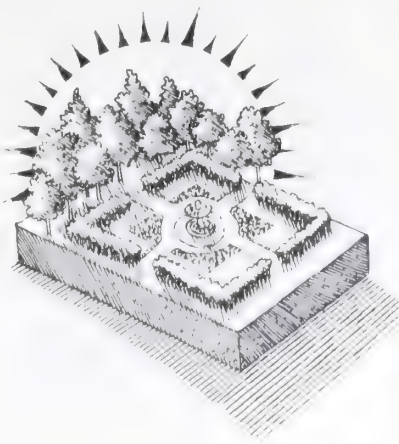
Robert H. Arnew

Father, son and son-in-law. NYC. Real estate. Jack: 77. Married, 2 children. Operated in NYC while partner Ben Swig (*see above*) operated in Boston. Top lease locator, broker for big retail chains 1940s, 1950s. Acquired commercial properties mostly NYC, also Houston, Cincinnati, etc. Former chairman United Jewish Appeal; all property said to be in names of children. Son-in-law Robert: 59. Married, 3 children. Cousin of Swigs. Also chaired UJA; most visible member otherwise reticent family. Alan: 46. Married, 3 children. Attorney. Said to be brains of outfit now. Family recently sold half interest Fairmont Hotels for estimated \$150 million. Share fortune estimated at well over \$300 million.

Fred C. Trump

Donald John Trump

Father & son. Real estate. NYC. Fred: 76. Married, 5 children. Donald: 35. Married, 2 children. Fred, self-made, built 20,000 apartments in NYC's Brooklyn, Queens. Donald joined business 1968, took over Manhattan business 1976. Pulled strings: Won right to develop new convention center; got biggest tax abatement ever for Grand Central Hyatt hotel. Consummate self-pro-



moter. Building Trump Tower, next to Tiffany's. Angling for Atlantic City casino. "Man is the most vicious of all animals, and life is a series of battles ending in victory or defeat." Share fortune estimated at over \$200 million. Donald claims \$500 million.

William Barron Hilton

Hilton Hotels. Los Angeles. 55. Married, 8 children. College dropout. Turned down first job offer from father because salary too low. Proved self with small business ventures; hired 1954. Became president 1966. Founded San Diego football Chargers 1960. On death of Conrad Hilton 1979 inherited option to buy 6.8 million shares Hilton Hotels on installment note. Estimated net worth, including present value of arrangement: about \$115 million. Will being contested by half-sister Constance, daughter of Zsa Zsa Gabor.

Marshall Field V

Frederick W. (Ted) Field

Half-brothers. Inheritance, media. Sons by different marriages of Marshall IV, who built Field Enterprises, one of largest U.S. media companies (Marshall Field dept. store sold long ago by family); owns Chicago *Sun-Times*, UHF TV stations, et al. Marshall: Chicago. 41. Divorced, remarried; 4 children. Acts as chairman Field Enterprises. Ted: Newport Beach, Calif. 30. Married, 1 child. Company director, but works mainly on own projects making movies, trading in commodities, racing. "Field Enterprises is Marshall's territory, and I respect his abilities." Share voting control (sisters have nonvoting interests) of company worth well over \$200 million.

Franklin Nelson Groves

Heavy construction. Wayzata, Minn. 51. Married, 3 children. Grandfather started taking farm horses into town after harvest for construction work 1905. Father bought out 2 brothers, switched to highway construction as S.J. Groves & Sons. Franklin took over 1969. Since oil embargo pushed diversification: dams, condos, sewage plants; also construction insurance, auto dealerships, Thoroughbred horses. Estimated net worth exceeds \$115 million.

The Forbes Four Hundred

F. Howard Walsh

Oil. Ft. Worth & Colorado Springs. 69. Married, 5 children. Owns spread on west edge of Ft. Worth; in oil business since 1942. Operates as Walsh & Watts; Bought out Watts late 1960s. Has son in business. Our best estimate oil reserves Texas, elsewhere: \$115 million.

Charles H. Dyson

Conglomerator. NYC. 73. Married, 4 children. Accountant, left Textron 1949 because he felt not diversifying fast enough; teamed up with Franklin H. Kissner 1956. Dyson-Kissner Corp. built conglomerate Wallace-Murray, sold it 1981. Also interests Esterline, other companies. Estimated net worth: at least \$115 million.

William Clay Ford

Ford Motor Co. Grosse Pointe, Mich. 57. Married, 4 children. Younger brother of Henry Ford II. Divides time between family company, Detroit Lions (bought for mere \$6 million 1961), personal 36-hole golf course Florida. For 6 days, Eugene McCarthy's running mate for presidency 1976. Wife is Martha Firestone. Estimated net worth: over \$100 million.

Jeno F. Paulucci

Food processing. Duluth, Minn. 64. Married, 3 children. Son of poor Italian immigrants; borrowed \$2,500 in 1946 to make canned Chinese food. Proved brilliant promoter; sold Chun King 1966 for \$63 million. Set up Jeno's, 100%-owned maker frozen pizza, snacks 1967; bought mutual fund management company to handle investments. Estimated net worth, including in children's names: at least \$110 million, plus extensive Florida landholdings.

Thomas Jordan

Oil. Healdsburg, Calif. 47. Married, 3 children. Geologist and lawyer by training, founded Trend Exploration Ltd. in native Denver 1966. Explored for oil U.S., Canada, Europe, SE Asia; huge success in Indonesia. Sold company for \$110 million in 1974. Moved to Sonoma County,

put \$15 million into winery, seeking to produce "elegance of a fine Bordeaux" in Calif. Expert opinion says he has. Also runs Jordan Oil & Gas Co. on side. Estimated net worth: at least \$110 million.

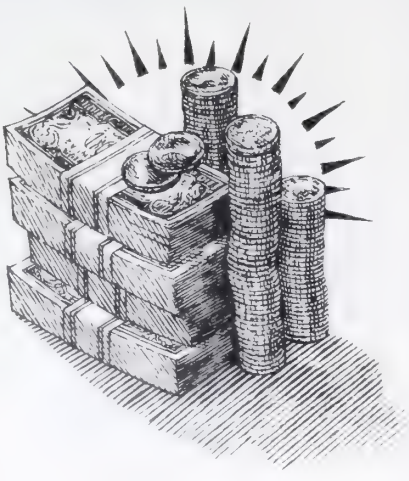
Paul Block Jr.

William Block

Brothers. Newspapers. Father built newspaper chain 1900-29; had to sell most of it in Depression. Sons took over 1941, 1946. Paul: Toledo. 71. Divorced, widowed, remarried; 3 sons, 3 stepchildren. Operates Toledo *Blade* (circ. 165,000). Ph.D. chemistry; does lab experiments in spare time. Politically conservative. Bill: Pittsburgh. 66. Married, 4 children. Started at *Blade* 1937; operated Pittsburgh *Post-Gazette* (circ. 180,000) since 1946. Politically liberal. Jointly own both papers, 2 smaller papers, TV and radio stations; venturing into cable. Estimated joint net worth: at least \$220 million.

Morris Barney Lalitz

Casino operator. Las Vegas. 83. Divorced, 1 daughter. Gave up family laundry business to concentrate on night clubs, gambling in Ohio, later Las Vegas. Identified before Kefauver Committee 1951 as participant in formation of national crime syndicate. Partner Desert Inn 1950-67, Stardust Hotel 1956-69; has 25% of La Costa country club, plush \$135 million resort built on Teamster loans. Also believed to own considerable other assets. Estimated net worth: \$110 million.



Jesse J. Parrish Jr.

Citrus, cattle. Titusville, Fla. 69. Married, 2 sons. Son of large citrus grower, added orange groves as fast as possible: "I hocked my life insurance policy so many times the bank stopped sending it back." Now has thousands of acres oranges, one of biggest cattlemen in Florida. Inveterate dealmaker, the more complicated the better: "If they were simple [deals], someone else would do them first." Estimated net worth: \$110 million.

Richard Raymond Rogers

Mary Kay Cosmetics. Dallas. 39. Divorced, remarried, 3 children. Started cosmetics company 1963 with mother; she had sales background, adapted cosmetics formula from foul-smelling tanner's cream (used to soften leather), had idea of home parties à la Tupperware. Son became president 1968, stock gradually passing to him. Lately held 4 million shares worth \$110 million.

Ray Stark

Movie producer. Holmby Hills, Calif. 65. Married, 2 children (1 deceased). Started as literary agent (Raymond Chandler, Ben Hecht), switched to movie stars (Lana Turner, William Holden). Cofounded independent film production company 1957, developed into Seven Arts. Formed Rastar Productions 1966, sold to Columbia Pictures 1981. Over years, his films have grossed over \$500 million. Made \$22 million on sale of Columbia shares to Coca-Cola. Estimated net worth: \$110 million.

Sydney Mark Taper

First Charter Financial Corp. Los Angeles. 80. Widower, 3 children. Says was born in England of Continental parents. Arrived Calif. 1939 with some capital, skill at land development. Founded First Charter 1955; took public 1959. Now third-largest S&L in U.S. despite revolving door management: "Has a habit of blaming other people." His 10.5 million badly depressed shares worth about \$110 million.

Henry Farrow

Oilfield supplies. Tulsa. 66. Married, 2 children. Started Sooner Pipe & Supply Co. 1937 with Latvian

immigrant father Sam (d. 1975). Now approaching \$1 billion estimated revenues. Extremely private seller oilfield supplies, pipe in U.S., Canada. Also Bigheart Pipe Line Corp., originally purchased for scrap value. Sister's heirs ruled out of will after noisy lawsuit; Henry now holds nearly two-thirds stock; brother, Jack, 57, nearly all rest. Henry's estimated net worth: over \$100 million.

Leland K. Whittier

N. Paul Whittier

Helen Whittier Woodward

Brothers and sister. Inheritance. Southern California. All over 75. Children of Mericos H. Whittier, oilman & cofounder (1911) Belridge Oil, company CEO until death 1925. Son Leland pres. 1965 to 1979. Bought out by Shell Oil 1979 (see also *Whittier family*). Extraordinarily secretive "for safety's sake": Leland's driver's license does not have home address (San Marino, Calif.). N. Paul gave \$5 million in 1980 for Whittier Institute for Diabetes & Endocrinology to Scripps Hospital, La Jolla. Also have family oil company, M.H. Whittier Co. Estimated net worth of each exceeds \$100 million.

Laura Simpson O'Neill

Abby Rockefeller Simpson

Sisters. Inheritance. Laura (Mrs. L.S. O'Neill): Mt. Kisco, N.Y. 28. Married, 2 children. Abby: NYC. 25. Unmarried. Daughters of Marilyn Milton Simpson (d. 1980) and great-granddaughters John D. Rockefeller Jr. Father, not a Rockefeller, works as Egyptologist in Boston; daughters have \$100 million-plus interests in Rockefeller trusts.

John Davison Rockefeller IV

Alida Rockefeller Dayton

Sandra Ferry (Rockefeller)

Hope Aldrich Rockefeller

Brother and sisters. Inheritance. Children of John D. III (d. 1978, car accident). John: Charleston, W.Va. 45. Married, 4 children. Worked on juvenile delinquency in W.Va. as special asst. to RFK, elected state House of Delegates 1966, elected governor 1976 by record margin, reelected 1980. Sandra: Cambridge,

Mass. 47. Unmarried. Dropped Rockefeller name; lives as recluse. Hope: Woodstock, Vt. 44. Divorced, 3 children. Wrote for *Newsday* (on feminism), *Village Voice*; won awards for other reporting. Dropped out mid-1970s to quiet rural life near uncle Laurance's resort. Alida: (Mrs. Mark Brandt Dayton): Minneapolis. 33. Married, 1 child. Did charitable work in San Francisco, TV documentary production in Los Angeles. Married 1978; husband (of Dayton family) running for Senate. Interest of each sibling in Rockefeller trusts exceeds \$100 million.

Rodman Clark Rockefeller

Ann Clark Rockefeller Harris

Steven Clark Rockefeller

Mary Clark Rockefeller Morgan

Children of Nelson Rockefeller's first marriage. Inheritance. Rodman: NYC. 50. Divorced, remarried, 4 children by first marriage. Chairman of late father's company, now called Ibec Inc. (1981 profits: \$7 million). Tips waiters 10%: "What was good enough for Great-grandfather is good enough for me." Ann (Mrs. George Harris): NYC. 48. Divorced, remarried. 4 children. After college, spell as social worker in London's East End, Bronx; also a student of landscape design. Steven: Middlebury, Vt. 46. Divorced, remarried; 3 children by first marriage, 1 by second. Married family's Norwegian maid, worked briefly for Rockefeller Center. Quit, entered Union Theological Seminary, tried psychoanalysis, got divorced; now dean of Middlebury College. Mary (Mrs. Thomas Morgan): NYC. 44.



Divorced, remarried, 3 children by first marriage. Active role in Michael Rockefeller wing at NYC's Metropolitan Museum (Michael was her twin brother who died in New Guinea); second husband worked as editor on major publications editorially opposed to late father. Interest of each sibling in family trusts exceeds \$100 million.

George R. Brown

Entrepreneur. Houston. 84. Married, 3 daughters. Injured in mine collapse, went to work in brother's new construction firm 1922. Brown & Root, sold to Halliburton 1962, one of world's largest construction companies. Cofounded Texas Eastern Transmission Corp. 1947. Also independent oil and gas producer. Long *éminence grise* of Houston politics; at his poker games in Suite 8F, Lamar Hotel, Senator LBJ would go out for the drinks. Eyesight failing. Estimated net worth: upwards of \$100 million.

Mary Jane du Pont Linger

Inheritance. NYC. 65. Married, 5 children. Father, Philip du Pont, ran \$10 million inheritance up to \$58 million in stock market, died 1928. She inherited \$50 million (dissolute older daughter cut off with mere \$2 million). Married stockbroker, long known in horsey set as owner Christiana Stables. Son Brett sometime Grand Prix auto racer. By now fortune should be well into 9 figures.

Malcolm Austin Borg

Newspapers, TV. Englewood and Spring Lake, N.J. 44. Married, 3 children. Spent 1960s learning the family business: highly profitable newspaper (the *Record*) for affluent NYC suburbs (Bergen Co., N.J.), owned by Borg family since 1930. Also 4 TV stations. Took over 1971. Non-union in one of strongest union regions in U.S. Estimated net worth: over \$100 million.

John Brooks Fuqua

Fuqua Industries, Inc. Atlanta. 64. Married, 1 surviving son. Farmboy ham operator, started first Augusta radio station 1940. After series of small but successful business deals, started Augusta TV station 1953. Profits supported conglomerating binge 1960s. Recently attempted to take \$1.6 billion revenues Fuqua In-

The Forbes Four Hundred

dustries private. Personally shy, considered financial "wizard"; reputation for diplomacy. Estimated net worth: over \$100 million.

William A. Graham

Real estate. Miami Lakes, Fla. 58. Married, 5 children. Father, Ernest Graham, bought 3,000 acres starting in 1932. Son William took over 1956; began development 1962. Now new town of Miami Lakes (just north of Hialeah). Brother D. Robert, governor Fla., retains sizable interest; sister-in-law Katharine Graham (*which see*), none. Also dairy in south Fla. Estimated net worth: over \$100 million.

Roy A. Huffington

Oil. Houston. 64. Married, 2 children. Exxon geologist who went out on own in 1956. Moderate success until 1968. Heard Indonesian area looked like Louisiana Basin geologically; tested out; stupendous gas and oil discovery. Had to take in many partners, chief one Indonesia. Bought out interest of one, Alaska Interstate, in his Huffco 1980. Estimated net worth: over \$100 million.

Robert W. Kieckhefer

Container executive, investments. Prescott, Ariz. 64. Married, 4 children. Joined family cardboard box and shipping container business 1939. Company joined Weyerhaeuser 1957 for \$217 million in stock; father got about \$52 million (d. 1970). Semiretired; breeds horses. With immediate family, owns 2% Weyerhaeuser, also holds other investments. Estimated net worth: over \$100 million.

William Ford Levitt

Home builder. Millneck, N.Y. 75. Twice divorced, remarried; 2 sons, 3 adopted stepdaughters by third marriage. Before WWII, small home builder Long Island. During war, developed mass production building technique on barracks. Applied to homes 1946: built 3 Levittowns, invented tract development concept. Sold Levitt & Sons 1968 for \$90 million; sailed off, chairman of the board, in custom-built yacht with French wife, art collection. Bored;

began with new company 1978; now building retirement Williamsburg communities, Orlando and Tampa Bay, Fla. Estimated net worth: over \$100 million.

Edward W. Scripps

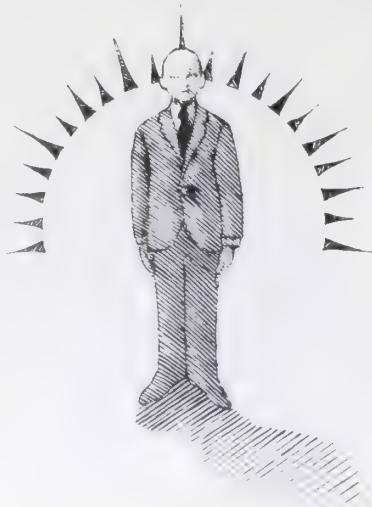
Newspapers. Charlottesville, Va. 73. Remarried; 2 sons, 1 stepson. Grandson of E.W. Scripps, but a sundered branch of family (*which see*). Owns Scripps League Newspapers, Inc.: 40 publications, including 21 small dailies scattered across country; 250,000 circ. Estimated net worth: in excess of \$100 million.

Helen Clay Frick

Inheritance. Pittsburgh. 93. Never married. The strong-willed, worshipful daughter of her father, Henry Clay Frick (dominated Pittsburgh coke industry in Carnegie era, broke Homestead strike 1892). Once lived near Frick Collection (NYC), established in his memory; also Pittsburgh mansion. Loves dogs. Reputedly was canny businesswoman; \$38 million inheritance (1919), surely nine figures by now.

Meyer Lansky

Mob moneyman. Miami Beach. 80. Divorced, remarried; 1 son, 1 daughter. Russian-born. Neighbor: "Unassuming little old man" who walks small dog. Alleged past gambling interests: Cuba, Bermuda, Fla., Vegas (reputed Vegas skim \$6.5 million/year). Believed owner motels



worth near \$100 million. Net worth may be far higher. Investigator: "Controls as much as, if not more than, anyone in organized crime."

Timothy J. Mellon

Inheritance. Guilford, Conn. 40. Married, childless: "Families are an anachronism; interesting social phenomena, perhaps." A Pittsburgh Mellon; reputed \$100 million in trusts. Started computer programming firm 1969; with partner started company to pressure-treat RR ties 1977; sought to acquire Boston & Maine RR 1981. Interests: ecology; human rights; gave money to rebuild Hanoi hospital. Estimated net worth: over \$100 million, denied by him.

Joseph J. Meyerhoff

Real estate. Baltimore. 83. Married, 3 children, 1 deceased. Left brother's foundering construction company in his early 30s, started own. Built houses, commercial properties around Baltimore. Went public "to diversify" by merging with Monumental Corp. in 1969. After accounting rule changes killed real estate stocks on Wall Street, price fell to \$7 a share in 1974. Formed liquidating trust in 1979, paid out some \$38 a share. Formed Magna Properties. Active philanthropist (favorite cause: Israel). With immediate family, estimated net worth over \$100 million.

Roy Richards

Cable manufacturer. Carrollton, Ga. 70. Married, 7 children. Worked way through Georgia Tech scrubbing floors; returned to father's sawmill and began making utility poles 1930s. Found shortage of wires; opened wire mill 1950. Southwire Corp. now largest independent producer electrical wire, cable and rod (1981 sales, \$600 million). National Steel paid \$25 million for 20% interest 1968. Richards, with family, has 62%, other interests. Holds annual picnic for 5,000 local employees and guests, preaches "evangelistic free enterprise." Estimated net worth exceeds \$100 million.

Sheldon H. Solow

Real estate. NYC. Late 40s. Married, 1 child. Went way out on limb to build landmark skyscraper (9 W. 57th St., NYC) near Plaza Hotel. Fully rented just before 1970s real



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The Forbes Four Hundred

estate bust. Also smaller properties; builds only in NYC: "A contentious, litigious man." Big collector modern art. Estimated net worth: over \$100 million.

Peter Sharp

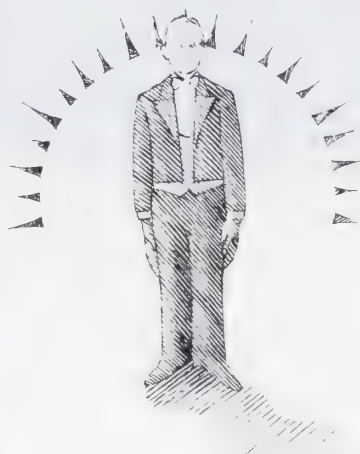
Real estate. NYC. 51. Divorced, 3 children. Father was major hotelier NYC 1920s (Delmonico, Ritz, etc.); died 1941. Majored in 16th-century French history at Princeton; started in real estate 1957. Owns prime commercial, residential property midtown Manhattan, Upper East Side (Park & 57th, Carlyle Hotel, Parke-Bernet building, et al.); other assets. Estimated net worth: at least \$100 million.

Dolph Briscoe Jr.

Rancher. Uvalde, Tex., 59. Married, 3 children. Governor Texas 1972-78; not renominated. Owns 500,000+ acres southwest Texas, 177,000 in Catarina Ranch alone; some oil under it. Owns the local bank in Uvalde. Estimated net worth: approximately \$105 million.

George Lucas

Star Wars. San Anselmo, Calif. 38. Married, 1 child. Raised on California walnut farm; indifferent high school student. Nearly killed in 1962 car crash. Directed *American Graffiti*; partner in *Raiders of the Lost Ark*. Actually believes in "The Force." With 7 episodes *Star Wars* gold mine to go, who's to argue? Aide puts net worth at \$50 million, but if Lucasfilm Ltd. were sold, could easily net over \$100 million.



William Zimmerman

Retailer. Laguna Beach, Calif. 62. Widower, remarried, 3 children. Started out at 9 on Manhattan's Lower East Side, buying sugarcane stalks in Chinatown, selling slices at 2 cents-3 cents, making 50 cents-75 cents/stalk. Still at it with distressed merchandise (mostly soft goods) at 78 Pic 'n' Save stores nationwide (1981 revs. \$133 million). His, children's shares, plus proceeds of stock sales, come to over \$100 million.

Ruth Chandler Williamson Boswell Crocker

Inheritance. San Marino, Calif. 85. Thrice widowed, 3 children. Daughter of Harry Chandler, Los Angeles empire builder (see *Chandler family*): "beautiful and very smart and the oldest" (Halberstam, *The California Dynasty*). Second husband J.G. Boswell left her 25% (directly and in trusts) J.G. Boswell Co., largest U.S. cotton producer; since sold off. With her 1/7 Chandler empire, other assets, net worth must exceed \$100 million.

Virginia McKnight Binger

Inheritance. Wayzata, Minn. 66. Married, 1 son, 2 daughters. Only child of William McKnight, 3M founder. Husband James rose to chairman and CEO Honeywell, Inc., retired 1979 after 35 years. Now they buy theaters on New York's Broadway. Her parents each left \$250 million, created \$340 million foundation. Her estimated net worth: \$100 million or more.

John Langeloth Loeb

Financier. NYC. 79. Married, 5 children. With his father founded Loeb, Rhoades, the brokerage firm, in 1931, run by John 1955-76. By then fourth-largest U.S. brokerage firm. Abandoned semiretirement 1977; merged with Hornblower, Weeks; lost money. Merged with Shearson Hayden Stone 1979; now honorary chairman Shearson/American Express. Visible assets worth about \$100 million.

Leslie Herbert Werner

Retailer. Columbus, Ohio. 45. Single. Went to work 1963 in father's women's clothing store. Disagreed with policy: borrowed \$10,000 to start own specialty store (sports-wear). Now has 422-store chain, The Limited; grosses \$200/sq. ft. Acquired Lane Bryant, sleepy larger chain, for assets: \$2/sq. ft. leases in \$15 markets. His share in the Limited worth around \$100 million.

David M. Darrin

Automatic Switch Co. Livingston, N.J. 64. Married, 3 sons. Father David H. worked for company, bought it, moved it to NYC from Baltimore; died 1928. After his death, mother gave one-third to management; later, two-thirds to David M. Company went public 1970; Darrin now owns 39%, worth \$86 million by itself. With proceeds of stock sales, should have more than \$100 million.

Carmage Walls

Newspapers. Houston. 73. Divorced, remarried, 3 children by first marriage, 2 by second. Started as assistant bookkeeper Orlando (Fla.) *Sentinel* 1932; became business manager 1933. Bought by chain, worked his way up to head string of papers. Started own company 1952; became buyer, holder, reseller of small-town southern newspapers: "I've made 24 millionaires" selling newspapers to his appointed publishers and others. Now family and friends own 26, total circulation of 211,000. Semiretired. Estimated net worth with wife, children: above \$100 million.

Ernest W. Hahn

Shopping centers. San Diego, Calif. 63. Married, 3 children. Started as small general contractor after leaving Navy 1946. Began building shopping centers early 1950s. Built over 34 million sq. ft. in numerous states. Sold out to Trizec Corp. (Canadian) 1980. His share: \$90 million. Semiretired: "I thought it was time to work a three-day week." With other assets, estimated net worth at least \$100 million.

James L. Knight

Knight-Ridder newspapers. Miami. 73. Married, 2 children. Long in shadow of brother and family patriarch John (d. 1981). Co-inherited

father's 3 small newspapers 1933. Acquired *Miami Herald* 1937, first of many including *Philadelphia Inquirer* and *Detroit Free Press*. Ran business side (John ran editorial policy). Now best-managed, most-profitable chain in U.S.; his stock alone worth \$87 million. With other assets, estimated net worth: over \$100 million.

Gordon McLendon

Broadcasting. Dallas. 61. Divorced twice, 4 children. Became famous as "The Old Scotchman," radio persona of 1940s, early 1950s. Invested in radio, TV stations. Pioneered Top 40 format, all-news station. Sold out 1972-77 for \$100 million plus. Bought gold, silver, strategic metals, real estate. Started early, so probably still worth over \$100 million despite recent slide.

Patrick J. McGovern

Publishing. Nashua, N.H. 45. Divorced, remarried, 2 children. Worked on tiny computer magazine, saw need for computer market census. Started International Data Corp. 1964. Started newspaper 1967 as IDC "ad" business-getter: *Computerworld*, now largest specialty publication of its kind. Moving into venture capital. Revenues \$75 million, growth 38% a year, net 10% aftertax. Net worth: at least \$100 million.

Robert Edward Petersen

Publisher. Beverly Hills. 56. Married, 2 sons (deceased). Unemployed movie publicist 1947. Borrowed \$2,000, printed *Hot Rod* magazine,

hawked at race meets; published in garage, slept on cot in corner. Built into Petersen Publishing Co.: 16 monthlies (*Guns & Ammo*, *Motorcyclist*, etc.), books, other. Married former Miss Rheingold; bought mansion, hunting ranch, art. Estimated net worth: at least \$100 million. Both young sons killed in plane crash, 1975.

Marc Rich

Oil trader. NYC. 48. Married, 3 daughters. Workaholic who built Phibro Corp.'s vast oil-trading business almost from scratch, demanded his \$1.5 million bonus under compensation rules. Phibro refused. Went away mad; as Marc Rich & Co. now does \$10 billion to \$15 billion trading a year, mostly oil, with partners mainly hired away from Phibro. Uses "leverage to the nth degree." With business down, estimated net worth still at least \$100 million.

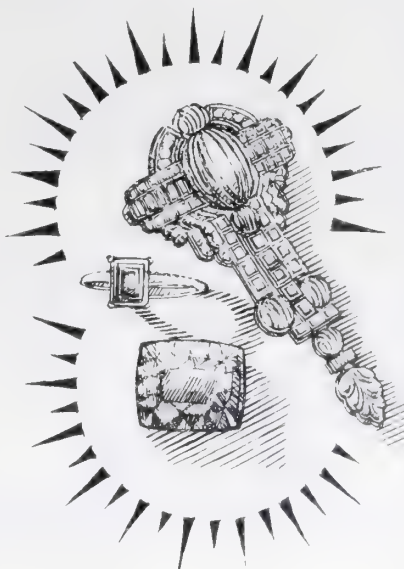
Jack Resnick

Burton Resnick

Father and son. Real estate. NYC. Jack: 75. Married, 4 children. Started as small builder in Bronx 53 years ago; moved to Manhattan 1950s, bought, held properties. Still runs company. Burton: 46. Married, 3 children. Chief operating officer Jack Resnick & Sons, Inc. Own over 4 million sq. ft. NYC commercial space, thousands of apartments NYC and Florida. Suing Teamsters for "racketeering." Equity easily exceeds \$350 million, but silent partners, principally Belfers (*which see*), have some. Estimated net worth: share at least \$200 million. Denied by them.

Peter Feinberg

Real estate. Palm Beach, Fla. 72. Married, 2 sons. Born Poland. Father's NYC wholesale produce business collapsed in Depression. Worked way through school, supported parents playing poker, shooting craps (with money backers), buying and selling used textbooks. Entered real estate 1936; reputation as "street smart." "I stopped gambling the minute I went into business." Has commercial real estate NYC, Florida, Denver, Atlanta; condos Florida. Turning business over to sons David (Denver), Michael (Miami). Estimated net worth: over \$100 million.



The Forbes Four Hundred

Peter Kalikow

Harold Kalikow

Son and father. Real estate. NYC. Harold: 73. Married, 1 son. Split off from family business of building, owning row homes in declining boroughs NYC 1967, switched to Manhattan. Peter: 39. Married, 1 son. Kalikows own 9,000 apts. Peter risked big (1.1 million sq. ft.) midtown office building; 101 Park Ave. hit booming rental market just right (1980), has \$100/sq. ft. capital gain. Shared fortune estimated well over \$200 million.

Sarah Korein

Real estate. NYC. 72. Widow, 2 children. Born in Europe, now owns choice Manhattan properties and respect of very tough real estate fraternity. Once called "The Bella Abzug of real estate." Does business in chiffon dress, but "when she sets her mind on a price there's no arguing with her." Children not in business. Estimated net worth: about \$100 million.

Bernard H. Mendik

Larry A. Silverstein

Ex-brothers-in-law. Real estate. NYC. Operated as Silverstein & Sons from 1957 to 1966, when father Harry Silverstein died; formed Silverstein & Mendik until split in 1977; Mendik divorced Larry's sister in 1978. Still partners in some buildings; intensely competitive. Bernie: 53. Remarried, 3 children. Born Scotland; raised in South Bronx as son of a handyman. Worked his way through school; broke into real estate via partnership/friendship with Silversteins: bought, upgraded NYC commercial lofts. Now has \$1 billion real estate, mostly syndications. Larry: 51. Married, 3 children. Began as lease broker with his father, now owns 5 million sq. ft. office space mostly on Fifth Avenue and Wall Street, building 1.5 million more at 7 World Trade Center. Also, some 1,400 Florida luxury apartments. Main relaxation: boating, which found him several key associates. Estimated net worth: each about \$100 million.

Lawrence A. Wien

Real estate, law. NYC. 77. Married, 2 children. Son of wealthy silk manufacturer; founded law firm Wien, Lane & Malkin 1929. Pioneered real estate syndication 1949, provided funds for deals with Harry Helmsley. Took varying percentages of equity, buildings' incomes. Wien-assembled groups control \$2 billion NYC real estate, including Empire State Building. Still has substantial real estate holdings after recent sales; 60-lawyer firm; other assets. Estimated net worth: about \$100 million.

Seymour Milstein

Paul Milstein

Real estate. NYC. Joined father's Circle Floor Co. early 1940s, expanded, sold 1967 for \$15 million. Built 1,964 luxury apts. near Lincoln Center. Paid \$30 million for Biltmore, Roosevelt hotel buildings 1978; estimated \$80 million profit. Also much other NYC real estate. Bought into United Brands 1975; their stock still worth only \$12 million. Seymour: 62. Married, 2 children. Paul: 60. Married, 2 children. Spend most of their time running United Brands, call real estate "hobby": "It only takes 2 seconds to make a decision if you know your work." Estimated net worth, nearly all from hobby: approximately \$200 million, shared about equally.

Sherman Cohen

Edward Cohen

Brothers. Real estate. NYC. 57, 61. Both married; 2 children each. Left college to become men's clothing



retailers; started Westchester construction company, built midrise apartment buildings. Now own large NYC commercial properties (666 Fifth Ave.); develop others. Sherman the developer, dominant brother. Ed, construction chief. Avid golfers. Estimated net worth: approximately \$200 million, shared equally; they claim \$500 million.

Ivan Boesky

Arbitrager. NYC. 45. Married, 4 children. Left Edwards & Hanley to go out on own 1975, backed by limited partners. Left partnership 1980: After several great years, "they had a couple of bad quarters and they call up to whine. Ivan doesn't need that kind of grief." Has new arbitrage, investment banking, investment firm; also family-owned hotels, including famed Beverly Hills Hotel. Teaches arbitrage course at NYU. Estimated net worth: around \$100 million.

Leo F. Corrigan Jr.

Inheritance. Dallas. 57. Married, 5 children. Leo Sr. self-made real estate magnate; owned Dallas' Adolphus Hotel, hotels worldwide, other real estate. Died 1975. Leo Jr. nearly out of hotel business now. Has 2 sons in Corrigan Properties; owns 20 Dallas tracts, Mercantile Texas bank stock, other assets. Net worth: about \$100 million.

James I. Gilmore Jr.

Investments. Kalamazoo. 56. Remarried widower, 5 children by first marriage. Gilmores long intermarried with Upjohns (see Upjohn family); city's dominant families. Worked way up through Gilmore Brothers Dept. Stores; built personal empire real estate, TV stations, car dealerships, etc. "My father's stepfather (founder Upjohn, Inc.) left me about \$3 million worth of stock. I think I put the money to good use." Estimated net worth: about \$100 million.

Marie Ingersoll Hamilton

Hope Ingersoll Van Beuren

Sisters. Inheritance. Granddaughters of John Thompson Dorrance, founder of Campbell Soup Co. (see J.T. Dorrance). Marie (Mrs. Samuel Hamilton): Strafford, Penna. 51. Married, 3 children. Husband a stockbroker. Runs a store nearby

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The Forbes Four Hundred

selling china, glass, furniture. Hope (Mrs. John Van Beuren): Middletown, R.I. 48. Married, 3 children. Husband involved in venture capital investments. "I'm just a regular American housewife; I raised my children." Runs a women's dress shop. On mother's death 1971, each inherited 7% Campbell Soup. With other assets, each worth around \$100 million.

Mary Hudson

Gas stations. Mission Hills, Kans. 69. Twice widowed, 1 daughter. At 21, widowed with infant, borrowed \$200 to open gas station 1934. By 1940, 40 stations. Now, 250 in 35 states, plus refinery. Specializes in cut-rate gas, low costs, little service. Turns off unneeded lights in 39-room mansion. Estimated net worth: approximately \$100 million.

Steven P. Jobs

Apple Computer. Los Gatos, Calif. 27. Single, no children. College dropout who sold telephone "blue boxes," saw potential in fellow computer freak's home-built personal computer. With partner started production 1976 in family garage on \$1,300 from sale of calculator and VW microbus. Went public 1980. Overcame Apple III stumble (manufacturing bugs) 1981. His 13.6% of shares worth around \$100 million.

John H. Johnson

Publishing. Chicago. 64. Married, 1 daughter. Born Arkansas; widowed mother worked as maid and cook. To Univ. of Chicago 1936; edited house magazine for black-owned insurance company. Pawned mother's furniture for \$500 to start *Negro Digest* 1942; had friends ask for, buy up copies to convince distributors to carry magazine. Now publishes *Ebony*, *Jet*, et al.; owns radio station, office building; expanding cosmetics line. Estimated net worth: approximately \$100 million.

Jack C. Massey

Entrepreneur. Nashville, Tenn. 78. Widower, remarried; 1 child. Pharmacist; started retail drug business in 1930, built it into wholesale sur-

gical supply chain, sold to Brunswick Corp. for almost \$2 million 1961. Took over, built, sold Kentucky Fried Chicken for \$45 million. Simultaneously built Hospital Corp. of America. Also real estate, other investments. "If you're going to get rich you can't worry about making money. You've got to try to accomplish something." Estimated net worth: about \$100 million.

Henry Earl Singleton

Teledyne. Los Angeles. 65. Married, 5 children. Learned conglomerating from Tex Thornton at Litton Industries 1954-60. Went out on own with \$225,000, backing from venture capitalist Arthur Rock, built Teledyne conglomerate 1960s. Quit acquiring around 1970, switched to internal growth, paid down debt. Bought in Teledyne shares starting 1972; also built vast portfolio (\$2.9 billion) other stocks. Chess buff. Estimated net worth: about \$100 million.

Frederick W. Smith

Federal Express Corp. Memphis, Tenn. 38. Divorced, remarried, 7 children. Father, called "Bus King of the South," left Smith \$3.2 million. Invested in idea developed for Yale economics course: Federal Express. Professor gave low grade: You're all wrong. Nevertheless, raised \$80 million venture capital, started up 1973. His shares now worth about \$100 million: "I was a lousy student—like Winston Churchill."

Kelvin Smith

Lubrizol Corp. Cleveland. 83. Married, 2 children. Son of a founder Dow Chemical. Cofounder Lubrizol 1928 on \$21,000 investment with 2 brothers, now deceased. Still honor-



ary chairman; lately in poor health. Present holdings, proceeds of stock sales over years by Smith and immediate family total about \$100 million.

Rankin McEachern Smith Sr.

Inheritance, sports. Atlanta. 57. Married, 5 children. Worked way up from filing clerk through family company, Life Insurance Co. of Ga. Sold out to Dutch company, Nationale-Nederlanden NV, in 1979. Bought Atlanta football Falcons 1965 for \$8.4 million; now worth far more. With family plantation, other assets, net worth estimated at about \$100 million.

Richard Alan Smith

General Cinema Corp. Chestnut Hill, Mass. 56. Married, 3 children. Inherited General Drive-In Corp. 1961. Diversified into Pepsi bottling. Also Miami TV station. All prospered. But no cable: "We understand marketing consumer services ... not all growth will come from new technology." His shares (some co-owned with immediate family) worth about \$100 million.

Jack N. Mandel

Joseph C. Mandel

Morton Leon Mandel

Brothers. Premier Industrial Corp. Jack: Shaker Heights, Ohio. 70. Married, no children. Joseph: Lyndhurst, Ohio. 68. Married, 2 daughters. Morton: Shaker Heights. 60. Married, 3 children. Pooled \$900 savings to buy auto-parts shop 1940; found customers pay well for quality, hard-to-find parts. Bought Newark Electronics, electronics parts distributor, for over \$20 million 1968; dropped high-volume, low-profit lines, built up comprehensive 752-page catalog electronic components; last year Newark earned \$25 million pretax. Each brother owns about \$75 million of Premier stock and considerable outside holdings.

Fred M. Allison Jr.

Oil. Midland, Tex. 63. Divorced, remarried, 2 sons by first marriage. Father Fred Sr. co-developed rotary drilling rig; Jr. was an innovator of secondary recovery techniques. Retired 1975; son Fred III, 39, runs business. Midland's "most outrageous" centimillionaire: first oil-

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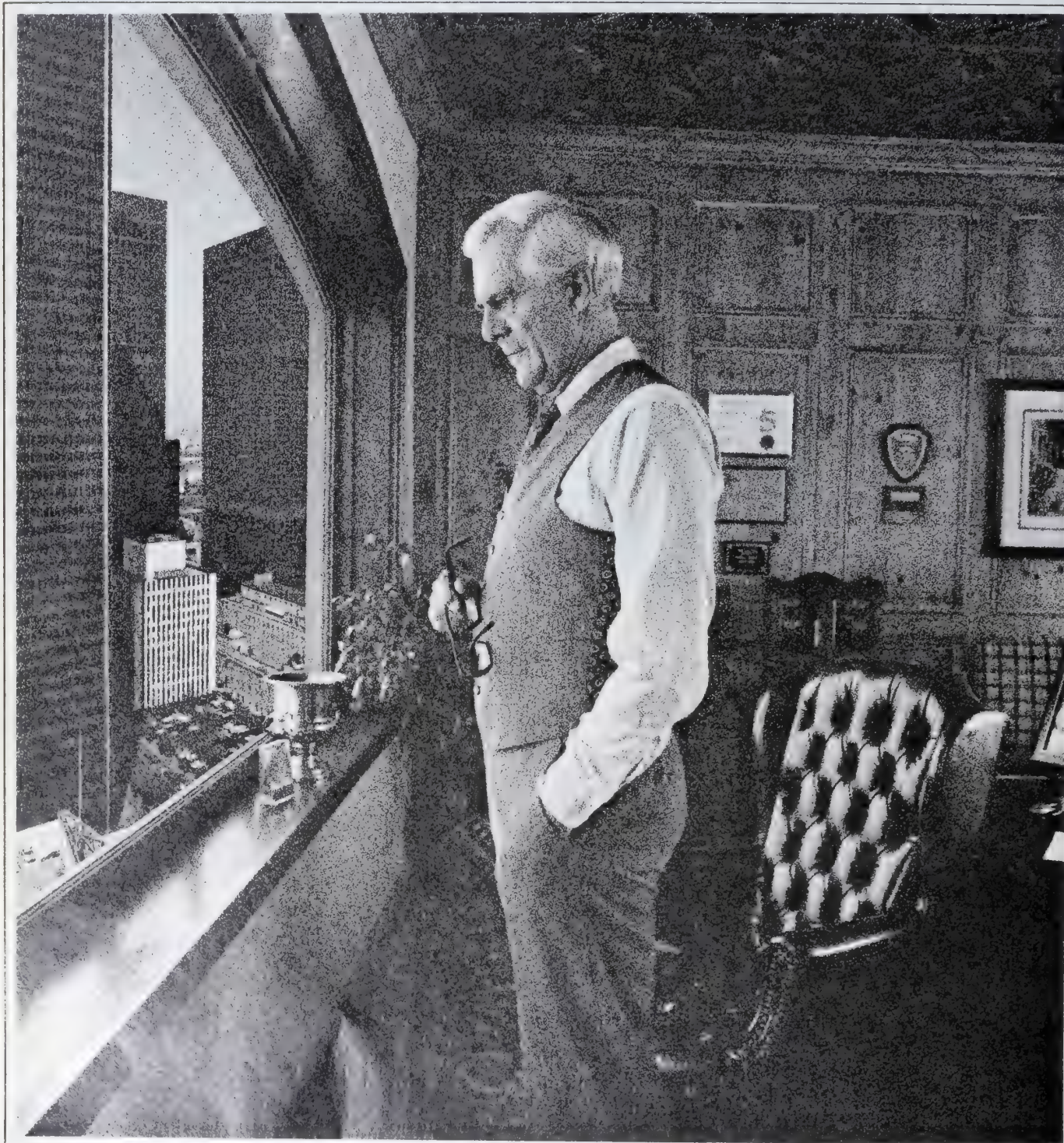
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The Forbes Four Hundred

man on block to have his own (TV) earth station. Has several million-dollar homes, many cars, travels constantly; used Concorde to celebrate 3 New Years in 3 time zones 1976-77. Estimated net worth is near \$100 million.

Arnold Bernhard

Investment advice. Westport, Conn. 80. Married, 2 children. Quit as *Time* magazine drama critic 1928 to work with legendary speculator Jesse Livermore. Livermore went on to suicide; Arnold to *Moody's*, founded Value Line Investment Survey 1936: "I had to find some rational way of evaluating stocks." Once lived above company in Midtown Manhattan townhouse; has a Westport, Conn. mansion. With over \$50 million invested in own mutual funds, estimated net worth: near \$100 million.

W. Averell Harriman

Inheritance. Wash., D.C. 90. Married 3 times, 2 children by first wife. Heir to \$69 million Union Pacific fortune 1935, also father's admonition: "Great wealth requires great responsibilities." Distinguished public service career under 5 Presidents; served as personal LBJ representative Vietnam negotiations, Paris 1968. Governor of New York 1955-58; former ambassador to London and Moscow. Despite slide in Union Pacific, major holding, net worth still close to \$100 million.

Sumner Redstone

Drive-ins, investments. Newton Center, Mass. 59. Married, 2 children. Started as lawyer; preferred business. Began building chain drive-ins 1954; as National Amusement Inc., owns 250 screens. Made killings in 20th Century-Fox, Columbia takeovers. Now invested primarily in entertainment, Treasuries; getting into family restaurants, video arcades: "Exhibitors vastly underestimate threat" of cable, alternative entertainment. Estimated net worth near \$100 million.

Nat Wartels

Crown Publishers. NYC. 80. Bachelor. Started remaindering books 1933; added reprints; then tried original titles; much later, direct mail, language records, book club, etc. As Outlet Book, still king of remainderers; as Crown, one of handful largest U.S. book publishers. Always busy; hanging on office wall: "A clean desk is the sign of a sick mind." Estimated net worth: near \$100 million; he says, "much too high."

William C. Cox Jr.

Jane Cox MacElree

Brother and sister. Inheritance. Great-grandchildren of Clarence Barron (see *Jane Bancroft Cook*), who built up *Wall Street Journal*, etc. Bill:

51. London. Married, 4 children. On board of Dow Jones & Co., works as executive director European operations. Jane (Mrs. Lawrence E. MacElree): Newtown Square, Penna. 53. Remarried, 7 children. Has raised money for Children's Hospital, Philadelphia. Since death of mother, Jessie B. Cox, April 1982, they preside over family trusts totaling around \$190 million.

Armas Clifford Markkula Jr.

Apple Computer. San Francisco area. 40. Married, 2 children. As marketing manager Intel, 1976, came across 2 computer freaks with homemade personal computer, orders, no way to produce enough. Put up \$91,000, secured line of credit, tapped venture capitalists. Computer freaks made him chairman of the board (see *Steven Jobs*). His 6.8 million shares Apple Computer recently worth \$91 million.

Malcolm Stevenson Forbes

Publisher. Far Hills, N.J. 63. Married, 5 children. Father B.C., Scottish immigrant, founded *FORBES* magazine 1917, built to preeminence in its day. Magazine languished during Depression, WWII. Rebuilt by Malcolm and brother Bruce. They inherited 1954; Bruce died 1964, Malcolm eventually becoming sole owner, guiding to dramatic increases readership, circulation, revenues, profitability. Also land, yacht, Fabergé eggs, art, balloons, motorcycles, etc. Net worth: See page 170.



Great Family Fortunes

*S*ome major fortunes in the U.S. have already been divided among so many heirs that no one of them qualifies for The Forbes Four Hundred, yet the families still show enough cohesion—in financial matters, at any rate—to be considered as an entity. Those uncovered in our research follow. The listing on the following pages is extensive, but not intended to be as complete as our search for the richest *individuals* in America. Think of these as the significant echoes of former Four Hundred members.

Family Fortunes

The Annenberg Sisters

NYC, et al. Five daughters Moses Annenberg (3 others deceased) and sisters of Walter Annenberg (*which see*). All sisters plus Walter have equal shares in a trust created by Moses, plus varying numbers of shares owned individually in Triangle Publications. (*TV Guide*, *Racing Form*, *Seventeen*); Walter votes all shares for family. Reasonable distributions over the years to all sisters should far exceed \$200 million.

Belk

Charlotte, N.C. Descendants William Henry Belk, who opened a general store Monroe, N.C. 1888; and of brother John, who joined him. Gave no credit; bought out, for pennies on the dollar, competitors who did give credit during hard times. Big growth period: Great Depression. About 25 family members share ownership 350 corporations, mostly shared with local owner-managers. Combined fortune should easily exceed \$200 million.

Berry

Dayton, Ohio. Heirs of Loren Berry (d. 1980, age 91), pioneer of the Yellow Pages concept while struggling ad salesman 1910. Also became part owner numerous small telephone companies of the time. L.M. Berry & Co., one of worldwide producers Yellow Pages, owned by widow, 5 children, 16 grandchildren and 17 great-grandchildren. Estimated net worth: around \$250 million.

Buck

California, New Mexico. Descendants Frank Buck, cofounder (1911), Belridge Oil. Family received \$665 million from 1979 buyout by Shell Oil, of which foundation got \$253 million. Remainder split among grandchildren, Buck's second wife; all over 60. C.B. Buck: "We sold the company, got the money in the bank; everybody's happy." Estimated net worth: probably over \$400 million.

Cabot

Boston area. Descendants John Cabot, immigrant (1700) merchant from Isle of Jersey. Famed Boston "Brah-

mins" ("The Lowells speak only to Cabots/And Cabots speak only to God"). Patriarch Thomas Cabot: "They got it [money] the hard way," i.e., married well. Godfrey Cabot founded Cabot Corp. 1882 to make carbonblack from newly discovered natural gas. Family still holds 45%, worth over \$225 million. Louis W. Cabot, 61, heads the \$1.6 billion company. Paul Cabot, 84, built up Harvard's endowment; now Walter Cabot, 49, runs Harvard's investment arm.

Cargill-MacMillan

Origin: Minneapolis. Founder William W. Cargill, son of Scottish sea captain born on Long Island, moved West, set up Cargill, Inc. 1865, quickly became leading Midwest grain trader. Across-the-street neighbor John Hugh MacMillan married his daughter 1895, became company president. Run by John, John Jr., to 1960. Now one of biggest grain traders in world, diversifying into other foodstuffs (beef, etc.), based near Minneapolis. 85% owned by Cargill and MacMillan families; interest must exceed \$1 billion. Waycrosse, Inc., located Minnetonka, manages most of family money. Some \$650 million owned by James and Margaret Cargill, J. Hugh, W. Duncan, Marion MacMillan (*which see*).

Chandler

Los Angeles. The dominant L.A. family; their *Times*, the dominant newspaper. Founder Harry Chandler (d. 1944) distributed papers, acquired interest in *Times*, married owner's daughter. Built vast real estate empire. Son Norman built up Times-Mirror, Inc. business side 1950s, 1960s; grandson Otis made editorial side one of best in U.S. 50 heirs share family trusts: \$440 million in Times-Mirror stock, substantial Southern Calif. real estate worth estimated \$200 million.

Cowles

Des Moines and Minneapolis. Founder Gardner Cowles Sr. bought struggling Des Moines paper 1903; eliminated competition, built respected newspaper. Son John Sr. bought struggling Minneapolis pa-

per 1935, eliminated competition, built respected newspaper. Son Gardner Jr. was doing same with *Look* magazine until wiped out by TV. Now third generation in place, buying more papers, moving into cable. 57 family members share fortune worth over \$200 million.

Dayton

Minneapolis. George Draper Dayton, banker with new vacant building in downtown Minneapolis 1902, bought dry goods company to have a tenant. Built into Dayton-Hudson chain; 5 third-generation brothers, ages 57 to 67, on sidelines. Dayton family holdings worth about \$300 million.

Dikeou

Real estate. Denver. Pronounced "D-Q." Father Panayes (Pete) emigrated from Greece 1921, wholesaled popcorn. Switched to real estate. Established family strategy: Buy small parcels strategically placed downtown; hold for long run; be last holdouts in land-assemblage deals (d. 1977). Three sons own 50 parcels totaling 14 acres heavily speckling downtown Denver; also substantial Florida holdings. With Denver overbuilt, Dikeous planning own development. At current land prices, their estimated net worth about \$275 million.

Donnelley

Origin: Chicago. Founder Richard R. Donnelley (d. 1899), saddle-maker's apprentice, ran away to print shop; joined another as partner 1864. Rebuilt after Great Fire 1871. Family built into R.R. Donnelley & Sons, largest U.S. printer (for *Time*, *Newsweek*, Sears catalog, etc.), still owns 23%. Also Reuben H. Donnelley Co., one of largest publishers Yellow Pages, sold to Dun & Bradstreet 1961. Family now in fourth generation, shares fortune probably exceeding \$400 million.

du Pont

Delaware and various. Descendants of original Pierre Samuel du Pont de Nemours (1739-1817), who made his 2 sons swear over their mother's grave: Remain united forever; then emigrated with them to America 1800. After 8 generations, with 6 major branches, over 1,700 living members, bond finally near disintegrating. Family still controls about



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20% E.I. Du Pont de Nemours & Co., 7% General Motors, etc., through Wilmington Trust, Delaware Trust or directly. But family's traditional Calling Day (New Year's) in Delaware "chateau" country now requires name tags to identify male relations giving flowers or candy, female relations receiving. Total net worth: over \$10 billion.

*The Heirs of
Pierre Samuel du Pont*

Delaware area. The numerous descendants of a subsequent Pierre Samuel du Pont's (1870-1954) 8 brothers and sisters; orphaned early, Pierre acted as paterfamilias. Split with other du Pont branches over sale of family explosives company; arranged leveraged buyout with 2 cousins 1902; later bought out 1 cousin, split with other, took control of E.I. Du Pont de Nemours & Co. 1915. Profited enormously from WWI (sold 45% of explosives used by Allies). Financed, helped engineer turnaround of General Motors 1920s, for approximately 23% of stock. Similarly, later, U.S. Rubber. Childless; divided wealth among brothers and sisters, assorted allies of his corporate battles; left only \$80 million personal estate. Brothers and sisters now all deceased; their descendants jointly worth at least \$8.5 billion.

Entenmann

Long Island. William Entenmann Sr. opened a mom-and-pop bakery in Brooklyn in 1898, by 1978 it had become a 14-acre plant (plus a small one in Florida), 500 trucks and a public company; still run by widow, Mrs. E., and 3 sons. Main secret: 45%-50% of sales dollar into high-quality ingredients, not 35% into okay-quality. Sold to Warner-Lambert 1978 for \$242.7 million. Their share: \$194 million.

Ford

Detroit area. Descendants of the Henry Ford. Base of fortune: 12.8 million shares class B stock Ford Motor Co. (10% of outstanding common shares but 40% of the votes), held by 3 surviving grandchildren (Henry II, the present patriarch; William Clay, *which see*; Josephine C.) and 13 great-grandchildren. Henry II would pass mantle to son Edsel, but watch Benson Jr. (Benson Sr. d. 1978) coming up on outside, with lawsuits. Family's

Ford stock, other assets, readily exceed \$250 million (not including William Clay's).

Haas

San Francisco. Levi Strauss, drawn from Bavaria by Calif. gold rush, offered patented blue jeans 1873; prospered. Walter Haas Sr. married grandniece, ran company 1928-70. By 1956, sales \$30 million, a Far West institution. That year James Dean starred in movie wearing jeans; now Levi Strauss, Inc. \$3 billion annual sales. Original 501 double X waist overall from 1873 still a major seller. Haas family owns 45%, worth \$425 million.

Hoiles

Santa Ana, Calif. Two surviving children (of 4) and grandchildren Raymond Cyrus Hoiles (1878-1970), onetime Ohio schoolteacher; founder Freedom Newspapers, Inc. Doctrinaire Libertarians: opposed to draft, trade restrictions, free libraries and public (*i.e.*, tax-supported) schools. Now 31 papers nationwide (circ. 800,000), TV station; family's combined net worth in excess of \$250 million.

Horvitz

Cleveland area. Three sons, 7 grandchildren Samuel A. Horvitz (d. 1956). Trust owns: string of smallish newspapers (run by Harry), large Ohio highway construction firm (Leonard), substantial Florida coast real estate (William); estimated total worth: about \$200 million. Squabbles over family trust erupted into lawsuit 1979.

Houghton

Origin: Corning, N.Y. Five generations of owning or controlling Corning Glass Works. Family owns over 6 million shares, mostly in trusts, worth \$300+ million. Principal member: Amory Houghton Jr., chairman Corning Glass Works. His father's cousin, Arthur Jr., regarded as richest individual family member.

Kennedy family

Origin: Boston. Estimated \$300 million-to-\$500 million in stocks, bonds, real estate, oil & gas divided among Rose, widow of Joseph P. Kennedy; 5 of 9 children (JFK, RFK, JFK Jr. and Kathleen dead); 29 grandchildren; 4 great-grandchildren.

Kirby

Morris County, N.J. Onetime merchant Fred M. Kirby (d. 1940) merged 96 variety stores into Woolworth's in 1912, family now has some 500,000 shares. Son Allan (d. 1973) further diversified investments. Allan's 4 children (current family leader, Fred M. II) control Alleghany Corp. With other, smaller holdings, family members share \$200 million plus.

Kleberg

King Ranch, Tex. Richard King, Rio Grande steamboat captain, bought Spanish land grants in Wild Horse Desert of south Texas 1850s. Followed friend General Robert E. Lee's advice: "Buy land and never sell." Added own: "Keep the family together." Now 825,000-acre King Ranch; found oil 1933. (Son-in-law added Kleberg name.) Fifth generation still owns and operates. Estimated net worth: \$550 million, divided among 60 heirs, in addition to holdings of Robert Shelton and Belton Johnson (*which see*).

Laird

Delaware. 5 children, 12 grandchildren of Mary Alletta du Pont (d. 1938) and William Winder Laird (d. 1927). Children shared in 1940s distribution of wealth by uncle Pierre Samuel du Pont (*which see*). Combined wealth probably exceeds \$400 million.

Lykes

Origin: Florida. Descendants of Dr. Howell Tyson Lykes; settled in Florida 1870s, bought land, made fortune raising, shipping cattle to Cuba. Established family compound Tampa 1895, branched out with 7 sons, 1 daughter to other regions, shipping; died 1906. Later family invested in insurance, real estate; steel 1960s (Lykes-Youngstown). Own 400,000 acres Florida, 240,000 Texas. Close to 200 members meet annually in Tampa, govern empire with assets that far exceed \$1 billion. No one may own more than 3%.

McCormick-Patterson

Chicago. Descendants of Colonel Robert Rutherford McCormick (d. 1955) and cousin, Captain Joseph Medill Patterson (d. 1946), builders Tribune Co. (Chicago *Tribune*, New

Ameritrust.

THE STRONG BANKERS



America's strongest big bank is not in San Francisco. Of the country's 50 largest banks, Ameritrust is first in the ratio of equity to assets. That's the kind of management that can make a real difference when you need a strong financial partner. Ameritrust, Cleveland, Ohio.



Super 80 leaves competition at the gate in new passenger survey.

Flyers give McDonnell Douglas twinjet high marks for quiet ride, seating comfort and cabin atmosphere.

This survey pitted jetliners similar in size and number of seats in head-to-head competition. The same class of service, same fare, flying the same routes, on the same days, on the same airline—virtually everything was the same.

Except the results!



Wider seats, wider aisle and five-across seating contribute to passenger comfort.

The Super 80 rose miles above the competition at every point of comparison: Quietness and smoothness of ride; leg, arm and shoulder room; seat-to-aisle access; carry-on luggage facilities; air quality, temperature and circulation; cabin size and decor. The Super 80's high ratings held up even when the planes were more than 80% full.

In this survey of more than 1,200 passengers, conducted by a leading independent research organization, the Super 80 was rated "very appealing overall" nearly twice as often as the 727. "Knowledgeable" passengers—people who fly a lot and know airplanes—preferred the Super 80 *three to one* over the 727.

We'd be happy to provide more details about the survey results. Just write to: Travel Industry Affairs, 3855 Lakewood Blvd., Long Beach, CA 90846. But better still, come aboard a new Super 80 first chance you get. See for yourself why this jet leaves the competition at the gate.



Super 80
MCDONNELL DOUGLAS



Family Fortunes

York *Daily News*). Once top circulation chain in U.S., now 4th. Also radio, TV, Chicago Baseball Cubs. 1981 revenues, \$1.4 billion; earnings, \$89 million. As of 1975, widely dispersed family members owned roughly half of shares. Company arguably worth \$1 billion, if *Daily News* problems can be resolved.

McGraw

NYC area. Three generations have owned or controlled McGraw-Hill, Inc. after James H. McGraw Sr. got piece of magazine business in lieu of unpaid subscription commissions. Family still owns 21%, worth some \$250 million. Current patriarch and CEO: Harold W. McGraw Jr.; no immediate McGraw family successors are in sight.

Mayer

Madison, Wis. Original Oscar Mayer emigrated from Bavaria 1873 at age 14; opened sausage shop 1883 in Chicago. Traded on premium quality, image and price; formula has worked 100 years. Oscar G. Jr. sold company to General Foods 1981, was CEO 1966-73. Some 300 descendants, in-laws share fortune exceeding \$200 million.

Moody

Galveston, Tex. Descendants William Lewis Moody Jr. (1865-1954). Founded American National Insurance Co. 1905; 1907 law forcing out non-Texan insurers proved vast bonanza. Built banking, ranching, etc. empire. Now first of 3 families dominating Galveston; long divided, lately reconciled. Today, 3 principal members control ANI, Moody National Bank, etc. Estimated net worth: well over \$300 million.

O'Connor

Descendants of Thomas O'Connor (d. 1887), who built 500,000-acre, 100,000-head ranching empire in south Texas. Family land holdings include part of Tom O'Connor field, one of most productive in Texas. Numerous descendants still hold empire; among most closemouthed people in state. Net worth could approximate Klebergs', or exceed: less land but more oil.

Pew

Philadelphia-based. The heirs and collateral descendants of Joseph Newton Pew Sr. Born 1848 near Titusville, Penna.: the early oil days. Developed first methods to capture, pipeline natural gas. Bought big into legendary Spindletop strike 1901. Founded Sun Oil Co. Family still has control of company. Over 400 individuals share fortune exceeding \$200 million, still largely Sun Oil stock. Does not include charitable trusts worth \$1.7 billion, which control Sun.

Phipps

Origin: Pittsburgh. Steel pioneer Henry Phipps (1839-1930), Philadelphia cobbler's son, as a child moved to Allegheny, Penna., into a house neighboring Andrew Carnegie's. When Carnegie sold out to J.P. Morgan 1901, Phipps got \$50 million; took stock while Carnegie took bonds. Set up Bessemer Trust predecessor 1911 for his 5 children. Family now in 4th generation; 5 branches divide Bessemer holdings, securities, eastern seaboard real estate, worth estimated \$1.2 billion.

Pitcairn

Philadelphia area. Former telegrapher from Pennsylvania Railroad, John Pitcairn established glassmaking plant western Pennsylvania 1883. Split between partners led to 2 companies, Pitcairn's PPG Industries and rival Libbey-Owens-Ford. Today, 22 grandchildren, 112 great-grandchildren share in family holding company, The Pitcairn Co., worth in excess of \$400 million. Still holds 14% of PPG.

Pulitzer

St. Louis. Descendants of Joseph Pulitzer (1847-1911); Hungarian immigrant, sometime politician. Bought bankrupt *Post-Dispatch* 1878, specialized in muckraking: "The crusade was simply the Pulitzer personality in print." Later bought New York *World*, built into one of top U.S. papers. With Hearst, put "yellow journalism" in the language with Spanish-American War. Later established Pulitzer prizes. His male descendants and their

families share ownership of Pulitzer Publishing Co., worth some \$400 million.

Scripps (E.W.)

Owens once-biggest U.S. newspaper chain. Flagship paper, *Cleveland Press*, founded 1878. Sold UPI wire service June 1982; still owns 75% Scripps-Howard Broadcasting. Long run by minority (12%) Howard family, heavy in evening papers. Nonfamily CEO attempting turnaround. 6 grandchildren, 28 great-grandchildren of Edward Wyllis Scripps (*which see*) share \$550 million interest through trusts.

Scripps (J.E.)

Detroit. Descendants of James Edmund Scripps (d. 1906), English immigrant. James conceived radical departure from flowery, elitist papers of his time: short, concise news stories written for burgeoning working class. Founded *Detroit News* 1873, persuaded brothers to sell family farm to finance. Runaway success; formula applied to other cities. James, brother Edward Wyllis split, E.W. to run own chain (*see above*), J.E. to run *News*. Descendants own nearly all umbrella Evening News Association worth \$200 million to \$300 million.

Temple

Diboll, Tex. Descendants of Thomas Louis Latané Temple Sr., who acquired 7,000 acres Texas timber 1893. At his death, 1934, 200,000 acres, major timber business. By 1973, half-million acres lovingly tended forest, earning \$9.6 million a year, run by grandson Arthur Jr. He "integrated forward" by merging with Time Inc., eventually became vice chairman of board. Now some 20 members of Temple family own roughly 15% of Time stock, worth over \$200 million.

Uihlein

Milwaukee. Descendants of 4 Uihlein brothers; August was the first to emigrate from Germany 1850; worked in uncle's brewery. Aunt remarried, changed her name, company name to Jos. Schlitz Brewing Co. Taken over by brothers 1875 on Joseph Schlitz' death. Family consists of over 450 members. Their 29-million+ shares, at price recently offered by Stroh Brewing, worth \$499+ million.

Old Habits VS. Common Sense

LONG DISTANCE CALLS	MINS.	BELL	MCI	SAVINGS
New York City to Trenton	15	\$4.40	\$2.90	34.1%
Washington, D.C. to Atlanta	2	1.05	.75	28.6
San Francisco to Denver	7	3.28	2.69	18.0
Philadelphia to Wilmington	20	5.80	3.87	33.3
Chicago to Milwaukee	5	2.05	1.64	20.0
Boston to Providence	2	.76	.39	48.7
Hartford to Springfield, MA	17	4.96	3.29	33.6
New Haven to New York City	1	.57	.25	56.1
Los Angeles to Chicago	16	7.24	6.14	15.2
Richmond to Baltimore	1	.58	.34	41.4
Cincinnati to Louisville	4	1.68	1.31	22.0
Cheyenne to Fort Collins	30	8.60	5.81	32.4
Houston to Phoenix	5	2.40	1.92	20.0
New Orleans to Cincinnati	17	7.50	6.36	15.2
San Diego to Indianapolis	10	4.60	3.84	16.5
Chicago to Cleveland	18	7.73	6.54	15.4
Los Angeles to St. Louis	9	4.16	3.46	16.8
New York City to Miami	8	3.72	3.07	17.5

Rates show comparative pricing between Bell's business day rate and MCI's business day rate. Final rate authorities on all tariffed services are MCI Tariff FCC 1 and AT&T Tariff FCC 263.

Old habits don't die easily.

Sometimes, even when they come face-to-face with overwhelming common sense.

Look at our chart.

Common sense would dictate that when you can place the same call to the same place and save 15 to 50%, it would be foolish not to.

That's why half the Fortune® 500 and nearly 200,000 other companies, large and small, have joined MCI.

But some companies are still thinking about it.

And while they're thinking about it, their competitors are enjoying the savings you see on the chart.

How can MCI charge less than Bell for the same service?

Very simply, MCI is run more efficiently than Bell.

We've built our own coast-to-coast network exclusively for long distance calling. Our equipment is newer and more advanced.

We work to hold our costs down, so we can pass the long distance savings along to you.

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The total savings in a year can be

enormous. A computer company saved a million dollars. An airline saved \$800,000. A bank, \$750,000.

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These savings are pure profit because there's no capital investment whatsoever. No installation. From the first moment you start using MCI, it's cost-effective.

You place the same calls to the same places you're calling now. But you start paying a lot less. With every phone call.

Naturally, you may have some questions about MCI. We'd be happy to send you a free brochure. Simply fill out the coupon and mail it to us.

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Title _____

Company _____ Telephone _____

Address _____

City _____ State _____ Zip _____

FB-3

Family Fortunes

Upjohn

Kalamazoo, Mich. Descendants of Drs. William and Henry Upjohn, developers first readily dissolvable pill (allowing accurate dosages). Founded Upjohn Co. 1886. Company went public 1958; first outside director 1968. Over 20 descendants and spouses (including several corporate officers) believed to hold 7.5 million shares, worth \$315 million.

Weyerhaeuser

St. Paul, Washington state, et al. Numerous descendants of Frederick Weyerhaeuser (1834-1914), German immigrant. Sawmill where he worked bankrupted in 1858 panic; he took over. Became acknowledged leader timber cutters; cut swath west from St. Paul to Pacific. Bailed out RR magnate James J. Hill 1900, bought 900,000 acres for \$6 an acre. Family still dominates, owns about 10% of Weyerhaeuser Co. Vast diversified family interests run by big staff on 21st floor in First National Bank of St. Paul building. Visible family assets exceed \$650 million.

Whittier

Southern California. Descendants of Mericos H. Whittier, oilman and cofounder (1911) Belridge Oil; its first president until his death 1925. Upon sale to Shell Oil 1979, family received \$675 million, nearly half to 2 sons, 1 daughter (see Whittier, Leland, et al.). Remainder divided among another brother, several children, grandchildren; totaled nearly \$375 million. Family also has considerable other holdings, including M.H. Whittier Co., family oil company.

Wolfe

Ohio. Descendants of brothers Robert F. and Harry P. Wolfe, builders of 19th-century fortune based on Wear-U-Well shoes. Diversified long since into newspaper (Columbus Dispatch), TV, investment banking, real estate, farming, political influence: considered by many most powerful family in Ohio. Current dominant member: John Walton Wolfe, Dispatch board chairman. Family shares fortune probably worth over \$275 million.

And what's Malcolm Forbes "worth"?

It's perfectly obvious that in 399 out of the FORBES 400 richest, the estimate of wealth is of necessity just that: an estimate based on considerable research, but still an estimate, an educated guess. In the case of MSF, though, readers could assume that a figure on wealth would or could certainly be precise, not just estimated. Herewith, the subject is treated by MSF in these excerpts from an interview that appeared in *Playboy* in April 1979.

Playboy: That brings us to the obvious question. With your magazine, and all your land, and your fishing camp, and your Moroccan palace, and your English mansion, and your French château, and your American estate, and your Fabergé collection, and your art, and your motorcycles, and your balloons, and your stock portfolio, and your money, and everything else, what does it all add up to? How much are you worth?

Forbes: Plenty! Happily, more so most every day. I assume, of course, that you're asking about money, not intrinsic value as a person.

Playboy: Yes.

Forbes: Good. Because that's a whole different thing and I suspect that the definitive reaction to the latter is: very little. [Laughs] But I really don't want to be on the record saying that I'm worth some far-out amount because I assure you that the people who collect death taxes will read this article and stick it into their dossiers. So if I claim that I'm worth some-odd hundreds of millions of dollars, then they'll come around later and want to know why my estate lawyers claim that I died practically penniless. [Laughs] It would leave me with what you might call a credibility gap. Up until the day Howard Hughes died, he was worth billions of dollars, and then everybody was astonished when Merrill Lynch and the executors came in and said his estate was worth less than \$200,000,000. You could say the executors and the estate-tax people were approaching their estimates from two different points of view.

Playboy: Let's try that question another way. If there were no such thing as estate taxes, how much

would you be worth?

Forbes: I can honestly say I don't know. How do you place a value on FORBES magazine? There are so many different ways you could measure just that one asset. Ten times earnings? One or two times gross sales? At best, those are crude yardsticks. As for my land: We sold 30% of the land we own in Colorado, and that's \$50,000,000 worth as it turned out. But from that you can't say that the rest of it, therefore, must be worth a quarter of a billion, or that all the other land I own must be worth that much an acre. There's no way to place a value on all these things. All I can say is: Thank the Lord, I'm solvent!

Playboy: You sure are. But it sounds as if you could reasonably say the rest of the land in Colorado must be worth a quarter of a billion.

Forbes: But so often it depends on what you do with what you have as to what you're worth. At least as far as money is concerned. When we bought that land in Colorado, I planned to turn it into a game preserve that would have been the greatest game preserve in the U.S. So its value in money terms would have been negligible. The university people, the game-commission people in Colorado were very enthusiastic. But the state attorney general ruled that the game on the land belonged to everybody; that the only way we could do it would be to drive all the game off the property first, then stock it with our own. We finally gave up and went into the real estate business. So it was a result of not being able to do what I set out to do, and being forced to do something else, that the land became worth many millions of dollars in sales.

Playboy: The attorney general forced you into all that profit, eh?

Forbes: [Laughs] I really should have cut him in for a commission, I guess. But you see the complications in trying to evaluate my worth, and besides, it's hardly the most important measurement. It happens to be one that Americans are fascinated by: How much money does this guy have? We're a money-oriented nation. The idea used to be that if you've got bread, you must be good. But I think we've gotten over that silly notion. We know that a lot of bums get bread, and there are many nefarious means of getting it. Money doesn't make the man.

Playboy: It helps.

Forbes: No question. Money is independence.

保險

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The Forbes Four Hundred

Acknowledgments

The truly rich may often be reticent, but they are rarely hermits. It's hard to have \$100 million or more and not catch the eye of, say, your local newspaper. Sources are where you find them.

Below, we gratefully acknowledge 82 sources, nationwide, that were especially helpful in the effort to identify the richest people in America. In addition, more than 80 other sources insisted upon

anonymity—mainly bankers, lawyers and financial advisers of one kind or another. "In the words of Sam Goldwyn," one prominent West Coast attorney told us after a helpful interview, "include me out!"

Our thanks, too, to scores of newspaper libraries across the U.S. that sent copies of many thousands of clippings for our files.

Brux Austin, editor, *Texas Business*; Dallas.
J. Arch Avary, retired executive vice president, Trust Company of Georgia; Atlanta.
Roldo Bartimole, publisher, *Point of View*; Cleveland.
Dave Beal, executive business editor, St. Paul *Pioneer Press and Dispatch*.
Scott Bennett, public affairs editor, *Texas Business*; Dallas.
Larry Birger, editor, *Business/Monday*, *Miami Herald*.
Richard F. Blackburn, Blackburn & Co., Inc.; Washington D.C.
Art Blum, president, Art Blum Public Relations; San Francisco.
Martin A. Brower, director public relations, The Irvine Company; Newport Beach, Calif.
John S. Bugas; Bloomfield Hills, Michigan.
Arthur Burck, Arthur Burck & Co.; Palm Beach.
R.W. Byram & Co., publishers oil and gas directories; Austin.
R. Eugene Caldwell, president, Baldwin Caldwell Company; Miami.
Kirk Cheyfitz, editor, *Monthly Detroit*.
George Christy, columnist, *Hollywood Reporter*; Hollywood.
John Cooney, author, *The Annenbergs*; New York City.
Andrew C. Currie, president, C.W. Shaver & Co.; Minneapolis.
Jack Daly, press secretary for Governor James A. Rhodes of Ohio; Columbus.
James R. Dublin, president, Dublin Associates; San Antonio.
Jim Duffy, business writer, *Denver Post*.
Mrs. Daniel J. Edelman, special events chairman, State of Illinois; Chicago.
Craig Endicott, *Advertising Age*; Chicago.
Robert E. Evans, senior vice president, Twin Cities Federal S&L Association; Minneapolis.
Michael D. Fischer; Miami.
David C. Foster, editor, *Business Atlanta*.
Gerald Freeman, Gerald Freeman, Inc.; New York City.
Bill Friman, president, Mercury Mortgage Company; Tulsa.
Jim Fuller, reporter, *Minneapolis Star and Tribune*.
Franklin M. Garrett, historian/trustee, Atlanta Historical Society.
John D. Gates, author, *The du Pont Family*, Winston-Salem, N.C.
Sidney S. Goosen, president, Pro-line Sanitary Supply; Detroit.
Robert Gottlieb, author; Santa Monica.
Francis J. Greenburger, president, Time Equities, Inc.; New York City.
Mary J. Hargrove, reporter, *Tulsa Tribune*.
H. Dale Henderson, president, Dale Henderson Inc.; Houston.
Ted Hepburn, The Ted Hepburn Company; Cincinnati.
Jim Hood, salesman, Grubb & Ellis; Newport Beach, Calif.
Carter B. Horsley, reporter, *New York Times*.
Harry Hurt III, author, *Texas Rich*; Houston.
Michael Kelly, business editor, *The Plain Dealer*; Cleveland.
Charles E. Kimball, real estate economist; Miami.
Jonathan I. Kislak, executive vice president, J.I. Kislak Mortgage Corp.; Miami.
Don Larson, publisher, *The Business Newsletter*; St. Paul.

Robert Lederer, editor, *Beverage World*; Great Neck, N.Y.
Lynwood A. Maddox, attorney; Atlanta.
Cye Mandel, owner, Cye's Rivergate Restaurant; Miami.
Theodore H. Mecke Jr., president, Economic Club of Detroit.
Leopold L. Meyer, philanthropist; Houston.
Donald Miller, art critic, *Pittsburgh Post-Gazette*.
Margaret Morris, journalist; Minneapolis.
Thomas Oliver, reporter, *Atlanta Journal and Constitution*.
Sandy Pesmen, features editor, *Crain's Chicago Business*.
Real Estate Data, *Real Estate Directory of Manhattan*; New York City.
Gerald D. Reilly, media consultant; Greenwich, Conn.
Gary Boyd Roberts, director of research, New England Historic Genealogical Society; Boston.
Michael D. Roberts, editor, *Cleveland*.
Peter Rosenthal, senior vice president, Howard J. Rubenstein Associates; New York City.
Dan Rottenberg, freelance writer and author; Philadelphia.
Howard J. Rubenstein, president, Howard J. Rubenstein Associates; New York City.
James Russel, financial editor, *Miami Herald*.
Ira Sampson, president, Sonnenblick-Goldman Corp. of Colorado; Denver.
William F. Sansing, business writer, *Tulsa Tribune*.
Jeremy Shamos; Denver.
Neil Shine, senior managing editor, *The Detroit Free Press*.
Louis Smadbeck, president, William A. White & Sons; New York City.
David C. Sodamann, energy-business editor, *Midland Reporter-Telegram*.
Sam Spatter, real estate editor, *Pittsburgh Press*.
Lloyd Spielman, vice president, Fitzgerald, DeArman & Roberts; Tulsa.
John D. Spooner, senior vice president, Shearson/American Express; Boston.
Dr. Eugene Swearingen, consulting economist; Tulsa.
Thomas Tew, senior partner, Tew, Critchlow, Sonberg, Traum & Friedbauer, P.A.; Miami.
Michael Thomas, author; New York City.
W.R. Thompson, Chaves County Extension Office; Roswell, N.M.
M. Bradley Tomkin, manager donor relations, Sloan-Kettering Institute; New York City.
Forrest J. Troy, editor, *Oklahoma Observer*.
James P. Ulman, publisher, *Oklahoma Business* and *Oklahoma Energy* magazines.
Sid Wallis, president, Sonnenblick-Goldman Corp. of California; Los Angeles.
Clyde Weiss, reporter, *Las Vegas Review-Journal*.
Taft Welch, senior board chairman, Western National Bank; Tulsa.
Donald K. White, business editor, *San Francisco Chronicle*.
Riley W. Wilson, business-oil editor, *The Tulsa World*.
William Wylie, business editor, *Pittsburgh Press*.

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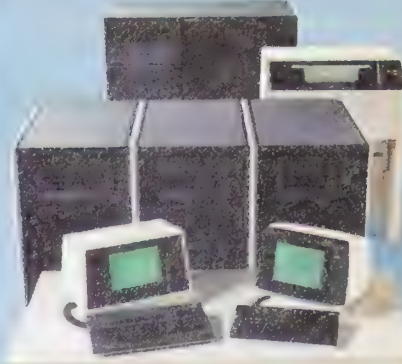
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They'll help you build your bridges—and cross to the other side.



BARCLAYS
International

	Page	Residence	Age	Worth (\$ mil)	Source
A bercrombie, Josephine E.....	138	Houston	55	100	Oil (inheritance)
Adams, Kenneth Stanley (Bud) Jr.	134	Houston	59	150	Entrepreneur
Albertson, Joseph A.	145	Boise, Idaho	75	115	Supermarkets
Alkek, Albert B.	111	Victoria, Tex.	71	350	Oil
Allbritton, Joe Lewis.....	116	Houston, et al.	57	250	Newspapers, TV
Allen, Charles Robert Jr.....	136	New York City	79	100*	Investments, real estate
Allen, Herbert.....	136	New York City	74	100*	Investments
Allen, Herbert Anthony.....	136	New York City	42	100*	Investments, real estate
Allison, Fred M. Jr.....	156	Midland, Tex.	63	100	Oil
Anderson, Robert O.	108	Roswell, N.M.	65	500	Oil, land
Annenberg Sisters.....	162	New York City, et al.	—	200	Publishing (inheritance)
Annenberg, Walter H.	105	Wynnewood, Penna.	74	800	Publishing
Anschutz, Philip.....	102	Denver	43	1,000	Oil
Anthony, Barbara Cox.....	108	Honolulu	59	500*	Newspapers, broadcasting
Arison, Ted.....	116	Miami Beach	57	250	Shipping
Arnold, Isaac Jr.	108	Houston	46	500*	Oil (inheritance)
Arnow, Robert H.	145	New York City	59	100*	Real estate
Avery, Alice O'Neill.....	134	West Los Angeles	65	150*	Real estate (inheritance)
B ass, Perry Richardson.....	102	Ft. Worth	67	1,000*	Oil, investments
Bass, Sid Richardson.....	102	Ft. Worth	39	1,000*	Oil, investments
Batten, Frank.....	138	Norfolk, Va.	55	140	Newspapers, TV, cable
Beal, Carlton.....	111	Midland, Tex.	66	400	Oil
Bechtel, Stephen Davidson Sr.	105	Oakland, Calif.	81	750	Engineering, construction
Bechtel, Stephen Davidson Jr.	105	Oakland, Calif.	57	200	Engineering, construction
Belfer, Arthur B.	116	New York City	75	250	Oil, real estate
Belk Family.....	162	Charlotte, N.C.	—	200	Retailing (inheritance)
Benenson, Charles B.	117	New York City	69	200	Real estate
Bernhard, Arnold.....	160	Westport, Conn.	80	100	Value Line Advisory Service
Berry Family.....	162	Dayton, Ohio	—	250	Publishing (inheritance)
Berry, Jack M. Sr.....	142	Winter Haven, Fla.	65	120	Oranges
Bettingen, Burton Green.....	117	Beverly Hills	70+	200	Oil (inheritance)
Biggs, Electra Waggoner.....	137	Vernon, Tex.	63	150	Oil (inheritance)
Binger, Virginia McKnight.....	152	Wayzata, Minn.	66	100	3M (inheritance)
Blaustein, Morton.....	136	Baltimore	55	133*	Oil (inheritance)
Block, Paul Jr.	146	Toledo, Ohio	71	110*	Newspapers
Block, William.....	146	Pittsburgh	66	110*	Newspapers
Boesky, Ivan.....	154	New York City	45	100	Arbitrager
Borg, Malcolm Austin.....	147	Englewood, N.J.	44	100	Newspapers
Bredin, Octavia Mary du Pont.....	140	Greenville, Del.	69	125*	Du Pont Co. (inheritance)
Bren, Donald L.	111	Orange County, Calif.	48	350	Real estate
Bright, Harvey R. (Bum).....	141	Dallas	61	125	Oil, trucking
Briscoe, Dolph Jr.	152	Uvalde, Tex.	59	105	Rancher
Brown, George R.	147	Houston	84	100	Construction, oil, gas
Brown, Jack.....	105	Midland, Tex.	56	550*	Oil
Brown, William Lee Lyons Jr.	142	Louisville, Ky.	46	125	Liquor
Buck Family.....	162	Calif.; N.M.	—	400	Oil (inheritance)
Buffett, Warren.....	116	Omaha	52	250	Investments
Busch, August A. Jr.....	112	St. Louis	83	300	Beer
C abot Family.....	162	Boston	—	225	Investments (inheritance)
Cargill-MacMillan Family.....	162	Orig. Minneapolis	—	1,000	Grain trading (inheritance)
Cargill, James R.....	137	Minneapolis	59	150*	Grain trading (inheritance)

*Assuming equal shares in common fortune. †Family fortune individually allocated.

Index To The Forbes Four Hundred

	Page	Residence	Age	Worth (\$ mil)	Source
Cargill, Margaret	137	La Jolla, Calif.	62	150*	Grain trading (inheritance)
Carlson, Curtis L.	108	Minneapolis	68	500	Entrepreneur
Carpenter, Robert Rulph (Bobby) Jr.	112	Montchanin, Del.	67	333*	Du Pont Co. (inheritance)
Carpenter, William Kemble	112	Ft. Lauderdale, Fla.	63	333*	Du Pont Co. (inheritance)
Caruth, William Walter Jr.	105	Dallas	70	600	Real estate
Chambers, Anne Cox	108	Atlanta	62	500*	Newspapers, broadcasting
Chandler Family	162	Los Angeles	—	640	Newspapers, real estate
Cockrell, Ernest H.	140	Houston	37	130	Oil
Cohen, Edward	154	New York City	61	100*	Real estate
Cohen, Sherman	154	New York City	57	100*	Real estate
Cohn, Seymour	123	New York City	71	200	Real estate
Collier, Miles	134	Naples, Fla.	35	150	Investments (inheritance)
Connell, Grover	134	Westfield, N.J.	64	150	Food brokerage, leasing
Conover, Catherine Mellon	140	Washington, D.C.	46	130	Investments (inheritance)
Cook, Jane Bancroft	130	Sarasota, Fla.	70	155	Publishing (inheritance)
Cooke, Jack Kent	110	Upperville, Va.	70	500	Publishing, cable TV
Cooke, Phoebe Hearst	124	Woodside, Calif.	55	100	Publishing (inheritance)
Copeland, Lamot du Pont	111	Greenville, Del.	76	400	Du Pont Co. (inheritance)
Copley, Helen Kinney	141	San Diego	59	125	Newspapers
Corrigan, Leo F. Jr.	154	Dallas	57	100	Real estate (inheritance)
Cowles Family	162	Des Moines, Minneapolis	—	200	Newspapers, cable TV
Cox, Edwin L.	110	Dallas	60	450	Oil
Cox, John L.	111	Midland, Tex.	57	350	Oil
Cox, William C. Jr.	160	London	51	95*	Publishing (inheritance)
Crocker, Ruth Chandler Williamson Boswell	152	San Marino, Calif.	85	100	Publishing (inheritance)
Crow, Trammell	110	Dallas	67	500	Real estate
Crown, Henry	114	Chicago	86	250*	Financier
Crown, Lester	114	Chicago	57	250*	Financier
Cullen, Roy H.	108	Houston	52	500	Oil (inheritance)
Cummings, Nathan	138	New York City	85	100	Industrialist
D alitz, Morris Barney	146	Las Vegas	83	110	Casinos
Darden, Constance Simons du Pont	140	Norfolk, Va.	78	125*	Du Pont Co. (inheritance)
Darrin, David M.	153	Livingston, N.J.	64	100	Automatic Switch Co.
Davis, Kenneth W. Jr.	117	Ft. Worth	56	250	Oil (inheritance)
Davis, Marvin	104	Denver	56	1,000	Oil
Davis, T. Cullen	117	Ft. Worth	48	250	Oil (inheritance)
Davis, William Selden	117	Ft. Worth	46	100	Oil (inheritance)
Dayton Family	162	Minneapolis	—	300	Retailing (inheritance)
Dayton, Alida Rockefeller	147	Minneapolis	33	100	Oil (inheritance)
DeBartolo, Edward J.	105	Youngstown, Ohio	64	500	Shopping centers
de Menil, Dominique	138	Houston	74	100	Oil well services (inheritance)
Dempsey, John	123	Delaware; Ohio	68	200	Bulk containers
De Vos, Richard Marvin	114	Ada, Mich.	56	275*	Amway Corp.
Dikeou Family	162	Denver, Fla.	—	275	Real estate
Dillon, Clarence Douglas	138	Far Hills, N.J.	73	100	Investments
Dinner, Richard	145	San Francisco	61	100*	Real estate
Disney, Roy Edward	137	Los Angeles	52	150	Movies, parks, broadcasting
Dixon, Fitz Eugene Jr.	136	Philadelphia	59	150	Transportation (inheritance)
Dixon, Suzanne Searle	129	Chicago	51	200*	Pharmaceuticals (inheritance)
Donnelley Family	162	Orig. Chicago	—	400	Printing (inheritance)
Dorrance, John Thompson Jr.	124	Gladwyne, Penna.	63	200*	Campbell Soup (inheritance)

*Assuming equal shares in common fortune †Family fortune individually allocated

	Page	Residence	Age	Worth (\$ mil)	Source
Dorrance, John Thompson III.....	124	Wyoming	38	200*	Campbell Soup (inheritance)
Draper, Irene Carpenter.....	112	Rockland, Del.	71	333*	Du Pont Co. (inheritance)
Duke, Doris.....	124	Somerville, N.J., et al.	70	200	Tobacco (inheritance)
du Pont Family.....	162	Delaware and various	—	10,000	Du Pont Co. (inheritance)
du Pont, Alexis Felix Jr.....	123	Kennett Pike, Del.	76	200	Du Pont Co. (inheritance)
du Pont, Edward Bradford.....	124	Wilmington, Del.	48	200	Du Pont Co. (inheritance)
du Pont, Evelyn Rebecca.....	141		57	125	Du Pont Co. (inheritance)
du Pont, Irénée Jr.....	140	Christiana Hundred, Del.	62	125*	Du Pont Co. (inheritance)
du Pont, John Eleuthère.....	141	Newtown Square, Penna.	43	125	Du Pont Co. (inheritance)
du Pont, Marion.....	112	Virginia; S.C.	88	300	Du Pont Co. (inheritance)
du Pont, Pierre Samuel Family.....	164	Delaware area	—	8,500	Du Pont Co. (inheritance)
du Pont, Pierre Samuel III.....	112	Greenville, Del.	71	300*	Du Pont Co. (inheritance)
du Pont, William III.....	141	El Paso, Tex.	30	125	Du Pont Co. (inheritance)
du Pont, Willis Harrington.....	112	Palm Beach, Fla.	46	300*	Du Pont Co. (inheritance)
Durst, David.....	130	New York City	59	166*	Real estate
Durst, Roy.....	130	New York City	62	166*	Real estate
Durst, Seymour.....	130	New York City	66	166*	Real estate
Dyson, Charles H.....	146	New York City	73	115	Conglomerator
E ngelhard, Jane.....	116	New Jersey	60s	250	Mining (inheritance)
Entenmann Family.....	164	Long Island, N.Y.	—	194	Bakeries
Evans, James Emmett.....	139	Dade City, Fla.	82	135	Oranges
Evans, Thomas Mellon.....	134	New York City	72	150	Investments
F arb, Harold.....	118	Houston	59	200	Real estate
Farish, William Stamps III.....	137	Houston	43	100	Oil (inheritance)
Fasken, David.....	130	California	67	170	Oil
Faulkner, Mary Belin du Pont.....	112		75	300*	Du Pont Co. (inheritance)
Feinberg, Peter.....	153	Palm Beach, Fla.	72	100	Real estate
Ferry, Sandra (Rockefeller).....	147	Cambridge, Mass.	47	100	Oil (inheritance)
Fetzer, John Earl.....	142	Kalamazoo	81	125	Broadcasting
Field, Frederick W. (Ted).....	145	Newport Beach, Calif.	30	100*	Media (inheritance)
Field, Marshall V.....	145	Chicago	41	100*	Media (inheritance)
Fisher, Larry.....	116	New York City	60s	250*	Real estate
Fisher, Max Martin.....	137	Detroit	75	150	Oil refining, real estate
Fisher, Zachary.....	116	New York City	60s	250*	Real estate
Flint, Lucile Evelena du Pont.....	140	Greenville, Del.	63	125*	Du Pont Co. (inheritance)
Forbes, Malcolm Stevenson.....	160	Far Hills, N.J.	63	(p.170)	Publishing
Ford Family.....	164	Detroit area	—	250	Ford Motor Co.
Ford, Kenneth W.....	110	Roseburg, Ore.	74	500	Timber
Ford, William Clay.....	146	Grosse Point, Mich.	57	100	Ford Motor Co.
Frazier, Owsley Brown.....	142	Louisville, Ky.	47	93	Liquor
Fribourg, Michel.....	110	New York City	69	400	Grain
Frick, Helen Clay.....	148	Pittsburgh	93	100	Mining (inheritance)
Frontiere, Georgia Rosenbloom.....	114	Bel Air, Calif.	52	300	Investments (inheritance)
Fuqua, John Brooks.....	147	Atlanta	64	100	Fuqua Industries, Inc.
G albreath, Daniel Mauck.....	134	Columbus, Ohio	54	150*	Real estate
Galbreath, John Wilmer.....	134	Columbus, Ohio	85	150*	Real estate
Gallo, Ernest.....	130	Modesto, Calif.	73	150*	Wines
Gallo, Julio.....	130	Modesto, Calif.	72	150*	Wines
Galvin, Robert W.....	138	Barrington, Ill.	59	147	Motorola
Gary, Samuel.....	141	Denver	55	125	Oil

* Shares in common fortune Family fortune individually allocated

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Bell System

	Page	Residence	Age	Worth (\$ mil)	Source
Gates, Charles Cassius	110	Denver	61	420+	Gates Corp.
Gaylord, Edward L.	116	Oklahoma City	63	500+	Newspapers, TV
Getty, Gordon Peter.....	102	San Francisco	48	1,400	Oil (inheritance)
Gilmore, James S. Jr.	154	Kalamazoo, Mich.	56	100	Investments
Goldman, Sol.....	117	New York City	64	200	Real estate
Goldman, Sylvan Nathan	117	Oklahoma City	83	200	Supermarkets, real estate
Graham, Katharine	142	Washington, D.C.	65	100	Washington Post Co.
Graham, William A.	148	Miami Lakes, Fla.	58	100	Real estate
Grainger, David William	142	Skokie, Ill.	54	123	Motor distributor
Grant, Charles B.....	124	Houston	61	200	Oil well supplies
Green, Dolly	117	Beverly Hills	70+	200	Oil (inheritance)
Greenewalt, Margaretta Lammot du Pont	140	Greenville, Del.	80	125*	Du Pont Co. (inheritance)
Griffin, Ben Hill Jr.....	137	Avon Park, Fla.	71	150	Citrus grower
Groves, Franklin Nelson	145	Wayzata, Minn.	51	115	Heavy construction
Guccione, Robert Charles Joseph Edward Sabatini	124	New York City	50	200	Publishing
<i>H</i> as Family	164	San Francisco	—	425	Levi Strauss, Inc.
Hahn, Ernest W.	153	San Diego, Calif.	63	100	Shopping centers
Hall, Donald J.....	124	Kansas City, Mo.	54	200*	Hallmark Cards
Hall, Joyce Clyde.....	124	Kansas City, Mo.	91	200*	Hallmark Cards
Hamilton, Marie Ingersoll	154	Strafford, Penna.	51	100	Campbell Soup (inheritance)
Hammer, Armand	136	L.A., NYC, Moscow	84	150	Oil, entrepreneur
Hamon, Jake Louis Jr.	116	Dallas	80	250	Oil, gas
Hardesty, Floyd Roger.....	136	Tulsa	44	150	Home building
Harriman, W. Averell	160	Washington, D.C.	90	100	Investments (inheritance)
Harris, Ann Clark Rockefeller	147	New York City	48	100	Oil (inheritance)
Hearst, David Whitmire	124	Beverly Hills	66	200	Publishing (inheritance)
Hearst, George Randolph Jr.	124	Los Angeles	55	100	Publishing (inheritance)
Hearst, Randolph Apperson.....	124	San Francisco	66	200	Publishing (inheritance)
Hearst, William Randolph Jr.	124	New York City	74	200	Publishing (inheritance)
Hefner, Robert A. III	136	Oklahoma City	47	150	Natural gas
Heinz, Henry John II.....	117	Pittsburgh	74	237	H.J. Heinz Co.
Helmsley, Harry Brakmann.....	105	New York City	72	750	Real estate
Hendrix, John	134	Midland, Tex.	46	150	Oil
Hess, Leon	114	New York City	67	275	Oil
Hewlett, William R.....	105	Palo Alto, Calif.	69	650	Electronics
Hill, Margaret Hunt	102	Dallas	67	1,000	Oil (inheritance)
Hillman, Henry Lea	108	Pittsburgh	63	500	Industrialist
Hilton, William Barron	145	Los Angeles	55	115	Hilton Hotels
Hines, Gerald Douglas.....	136	Houston	56	150	Real estate
Hobby, Oveta Culp	124	Houston	77	200	Houston Post
Hoiles Family	164	Santa Ana, Calif.	—	250	Newspapers, tv
Hope, Leslie Townes (Bob)	114	North Hollywood, Calif.	79	280	Entertainer, real estate
Horvitz Family	164	Cleveland	—	200	Newspapers, const, real estate
Houghton Family	164	Orig. Corning, N.Y.	—	300	Corning Glass Works
Howard, Robert Staples	141	Rancho Santa Fe, Calif.	57	125	Newspapers
Hubbard, Stanley E.	129	St. Paul	85	175	Broadcasting
Hudson, Mary	156	Mission Hills, Kans.	69	100	Gas stations
Huffington, Roy M.....	148	Houston	64	100	Oil
Hunt, Haroldson Lafayette (Hassie) III	105	Dallas	65	600	Oil (inheritance)
Hunt, Helen.....	118	Dallas	33	200*	Oil, rl estate (inheritance)

*Family fortune individually allocated

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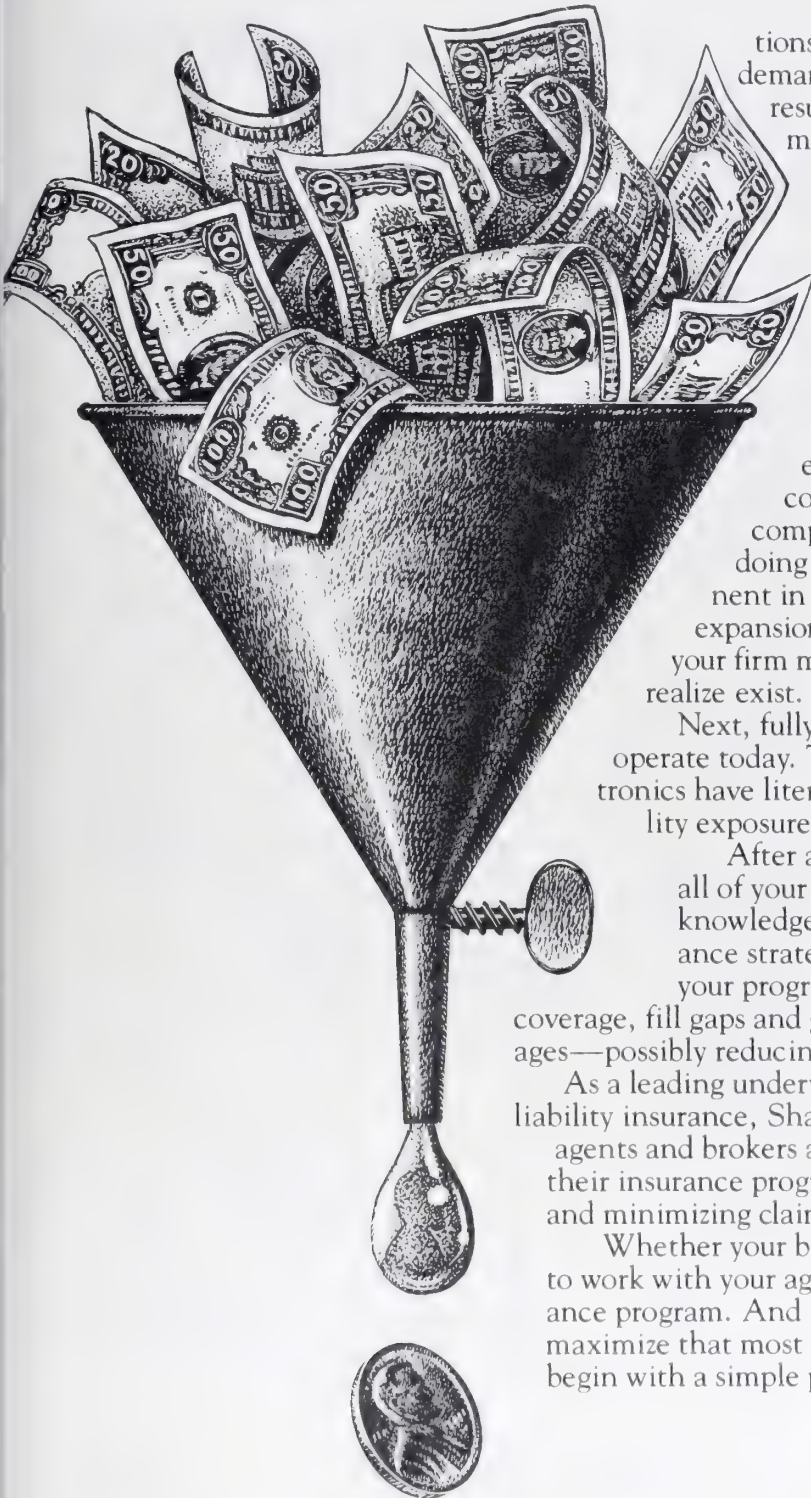
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	Page	Residence	Age	Worth (\$ mil)	Source
Hunt, Lamar	104	Dallas	50	1,000	Oil (inheritance)
Hunt, Nelson Bunker	104	Dallas	56	1,000	Oil (inheritance)
Hunt, Ray Lee	118	Dallas	39	200*	Oil, rl est (inheritance)
Hunt, Ruth June	118	Dallas	38	200*	Oil, rl est (inheritance)
Hunt, Ruth Ray	118	Dallas	65	200*	Oil, rl est (inheritance)
Hunt, William Herbert	104	Dallas	53	1,000	Oil (inheritance)
Hunt-Meeks, Swanee	118	Denver	32	200*	Oil, rl est (inheritance)
J obs, Steven P.	156	Los Gatos, Calif.	27	100	Apple Computer
Johnson, Belton Kleberg	134	San Antonio	52	150	Ranching
Johnson, John H.	156	Chicago	64	100	Publishing
Johnson, John Seward	130	Ft. Pierce, Fla.	87	170	Johnson & Johnson
Johnson, Samuel Curtis	110	Racine, Wis.	54	500	Johnson Wax
Jordan, Thomas	146	Healdsburg, Calif.	47	110	Oil
K alikow, Harold	154	New York City	73	100*	Real estate
Kalikow, Peter	154	New York City	39	100*	Real estate
Kaskel, Howard	129	New York City	45	200	Real estate
Keck, Howard B.	129	Los Angeles	69	200	Superior Oil Co.
Keck, William Jr.	129	Los Angeles	71	100	Superior Oil Co.
Kennedy Family	164	Orig. Boston	—	300-500	Investments (inheritance)
Kerkorian, Kirk	139	Las Vegas	65	133	Entrepreneur
Kieckhefer, Robert H.	148	Prescott, Ariz.	64	100	Packaging
Kirby Family	164	Morris County, N.J.	—	200	Investments (inheritance)
Kleberg Family	164	King Ranch, Tex.	—	550	Ranching
Kluge, John Werner	138	New York City	67	140	Broadcasting
Knight, James L.	153	Miami	73	100	Knight-Ridder Newspapers
Knight, Philip H.	114	Beaverton, Ore.	44	275	Nike shoes
Koch, Charles G.	114	Wichita, Kans.	46	266*	Oil
Koch, David H.	114	New York City	41	266*	Oil
Koch, William I.	114	Boston	41	266*	Oil
Korein, Sarah	154	New York City	72	100	Real estate
Kroc, Raymond A.	111	Chicago	79	320	McDonald's
L aird Family	164	Delaware	—	400	Du Pont Co. (inheritance)
Landegger, Carl C.	134	New York City	51	150*	Industrialist
Landegger, George F.	134	Europe & Connecticut	44	150*	Industrialist
Lansky, Meyer	148	Miami Beach	80	100	Mob moneyman
Lauder, Estée	142	New York City	70+	125*	Cosmetics
Lauder, Joseph	142	New York City	70s	125*	Cosmetics
Lauder, Leonard	142	New York City	49	125*	Cosmetics
Lauder, Ronald	142	New York City	38	125*	Cosmetics
LeFrak, Samuel J.	110	New York City	64	500	Real estate
Levitt, William J.	148	Millneck, N.Y.	75	100	Home building
Lindner, Carl H. II.	140	Cincinnati	63	132	Banking, insurance
Loeb, John Langeloth	152	New York City	79	100	Financier
Louis, John Jeffrey Jr.	114	Winnetka, Ill.	57	240	Johnson Wax (inheritance)
Lucas, George	152	San Anselmo, Calif.	38	100	Film producer
Ludwig, Daniel Keith	102	New York City	85	2,000	Shipping
Lunger, Mary Jane du Pont	147	New York City	65	100	Du Pont Co. (inheritance)
Lupton, John T.	112	Chattanooga, Tenn.	56	300	Coca-Cola bottler
Lurie, Robert Alfred	118	San Francisco	53	200	Real estate

*Assuming equal shares in common fortune. †Family fortune individually allocated.

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	Page	Residence	Age	Worth (\$ mil)	Source
Lykes Family	164	Orig. Florida	—	1,000	Shipping, invest (inher.)
<i>M</i> acElree, Jane Cox	160	Newtown Square, Penna.	53	95*	Publishing (inheritance)
MacMillan, John Hugh III	142	Ft. Lauderdale, Fla.	54	116*	Cargill, Inc.
MacMillan, W. Duncan	142	Wayzata, Minn.	52	116*	Cargill, Inc.
Mandel, Jack N.	156	Shaker Heights, Ohio	70	75	Premier Industrial Corp.
Mandel, Joseph C.	156	Lyndhurst, Ohio	68	75	Premier Industrial Corp.
Mandel, Morton Leon	156	Shaker Heights, Ohio	60	75	Premier Industrial Corp.
Markkula, Armas Clifford Jr.	160	San Francisco	40	91	Apple Computer
Marriott, John Willard Sr.	118	Washington, D.C.	82	200+	Marriott Corp.
Mars, Forrest Sr.	104	Las Vegas, Virginia	78	1,000	M&M/Mars, Inc.
Marshall, Margaret Cullen	108	Houston	61	500*	Oil (inheritance)
Marx, Leonard	112	New York City	76	300	Real estate
Massey, Jack C.	156	Nashville, Tenn.	78	100	Entrepreneur
May, Cordelia Scaife	111	Ligonier, Penna.	54	400	Investments (inheritance)
May, Irene Sophie du Pont	140	Wilmington, Del.	82	125*	Du Pont Co. (inheritance)
Mayer Family	167	Madison, Wisc.	—	200	Food process (inheritance)
McCormick-Patterson Family	164	Chicago	—	1,000	Media (inheritance)
McGovern, Patrick J.	153	Nashua, N.H.	45	100	Publishing
McGraw Family	167	New York Area	—	250	Publishing
McLean, Malcolm Purcell	110	New York City	68	400	Trucking, shipping
McLendon, Gordon	153	Dallas	61	100	Broadcasting
McNeil, Henry Stack	130	Plymouth Meeting, Penna.	65	168	Pharmaceuticals
Mecom, John W. Jr.	137	Houston	42	150	Oil (inheritance)
Mellon, Paul	108	Upperville, Va.	75	500	Investments (inheritance)
Mellon, Timothy	148	Guilford, Conn.	40	100	Investments (inheritance)
Mendik, Bernard H.	154	New York City	53	100	Real estate
Meyerhoff, Joseph	148	Baltimore	83	100	Real estate
Milliken, Roger	111	Spartanburg, S.C.	66	400	Textiles
Mills, Alice Francis du Pont	123	Hobe Sound, Fla.	69	200	Du Pont Co. (inheritance)
Milstein, Paul	154	New York City	60	100*	Real estate
Milstein, Seymour	154	New York City	62	100*	Real estate
Mitchell, George P.	110	Houston	63	400	Oil, real estate
Moncrief, William Alvin Sr.	134	Ft. Worth	87	150*	Oil
Moncrief, William Alvin Jr.	134	Ft. Worth	62	150*	Oil
Moody Family	167	Galveston, Tex.	—	300	Insurance, banking (inher.)
Moore, Gordon E.	141	Santa Clara, Calif.	53	125	Intel Corp.
Morgan, Mary Clark Rockefeller	147	New York City	44	100	Oil (inheritance)
Mosbacher, Robert Adam	129	Houston	55	200	Oil
Murchison, Clint W. Jr.	114	Dallas	58	260	Oil, investments
Murdock, David H.	111	Bel Air, Calif.	59	400	Real estate, investments
Muss, Stephen	118	Miami Beach	54	200	Real estate
<i>N</i> ewhouse, Donald	105	New York City	52	600	Newspapers, TV
Newhouse, Samuel I. Jr.	105	New York City	54	600	Newspapers, TV
Nielsen, Arthur Charles Jr.	216	Winnetka, Ill.	63	216	A.C. Nielsen Co.
<i>O</i> 'Connor Family	167	Texas	—	600	Ranching (inheritance)
Olsen, Kenneth Harry	130	Lincoln, Mass.	56	157	Digital Equipment Corp.
O'Neill, Abby Milton	123	Oyster Bay, N.Y.	54	200	Oil (inheritance)
O'Neill, Laura Simpson	147	Mt. Kisco, N.Y.	28	100	Oil (inheritance)
O'Neill, Richard J.	134	San Juan Capistrano, Calif.	59	150	Real estate (inheritance)

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	Page	Residence	Age	Worth (\$ mil)	Source
Ono, Yoko	137	New York City	49	150	Music royalties (inheritance)
P ackard, David	104	Los Altos Hills, Calif.	70	1,000	Hewlett-Packard Co.
Palevsky, Max	129	Los Angeles	58	200	Computers
Paley, William S.	138	New York City	80	140	Broadcasting
Park, Roy Hampton	140	Ithaca, N.Y.	71	130	Newspapers, broadcasting
Parker, Jack	129	New York City	67	200	Real estate
Parrish, Jesse J. Jr.	146	Titusville, Fla.	69	110	Citrus, cattle
Paulucci, Jeno F.	146	Duluth, Minn.	64	110	Food processing
Payson, Charles S.	142	Portland, Me.	83	120	Entrepreneur (inheritance)
Pearson, Edith du Pont	112	Greenville, Del.	70	300*	Du Pont Co. (inheritance)
Perot, H. Ross	111	Dallas	52	325	Computer services
Petersen, Robert Edward	153	Beverly Hills	56	100	Publishing
Petrie, Milton	118	New York City	80	225	Retailing
Pew Family	167	Philadelphia	—	200	Sun Co.
Phipps Family	167	Orig. Pittsburgh	—	1,200	Investments (inheritance)
Phipps, Howard Jr.	142	Westbury, N.Y.	48	120	Investments (inheritance)
Pictet, Marion MacMillan	142	Geneva, Switz.	49	116	Cargill, Inc.
Pitcairn Family	167	Philadelphia	—	400	Glass (inheritance)
Pope, Generoso Paul Jr.	140	South Palm Beach, Fla.	55	130	Publishing
Posner, Victor	123	Miami Beach	63	200	Financier
Pritzker, A. N.	111	Chicago	86	333*	Financier
Pritzker, Jay Arthur	111	Chicago	60	333*	Financier
Pritzker, Robert Alan	111	Chicago	56	333*	Financier
Pulitzer Family	167	St. Louis	—	400	Newspapers (inheritance)
Pulliam, Eugene S.	123	Indianapolis	68	200	Newspapers
R ains, Liliore Green	117	Beverly Hills	70+	200	Oil (inheritance)
Redstone, Sumner	160	Newton Center, Mass.	59	100	Drive-ins, investments
Reed, William Garrard Sr.	130	Seattle	74	170	Timber
Resnick, Burton	153	New York City	46	100*	Real estate
Resnick, Jack	153	New York City	75	100*	Real estate
Reynolds, Donald Worthington	129	Ft. Smith, Ark; Las Vegas	75	200	Newspapers, media
Rich, Marc	153	New York City	48	100	Oil trader
Richards, Roy	148	Carrollton, Ga.	70	100	Cable manufacturer
Robertson, Wilhelmina Cullen	108	Houston	59	500*	Oil (inheritance)
Robins, E. Claiborne	137	Richmond, Va.	72	150†	A. H. Robins Co.
Rockefeller, David	105	NYC, Tarrytown, N.Y.	67	1,000	Oil (inher.), investments, rl est
Rockefeller, Hope Aldrich	147	Woodstock, Vt.	44	100	Oil, real estate (inher.)
Rockefeller, John Davison IV	147	Charleston, W.Va.	45	100	Oil, real estate (inher.)
Rockefeller, Laurance Spelman	110	Tarrytown, N.Y.	72	450	Oil, real estate (inher.)
Rockefeller, Rodman Clark	147	New York City	50	100	Oil, real estate (inher.)
Rockefeller, Steven Clark	147	Middlebury, Vt.	46	100	Oil, real estate (inher.)
Rockefeller, Winthrop Paul	110	Winrock Farms, Ark.	34	400	Oil, real estate (inher.)
Rogers, Richard Raymond	146	Dallas	39	110	Mary Kay Cosmetics
Rollins, O. Wayne	116	Atlanta	70	250	Entrepreneur
Root, Chapman S.	123	Ormond Beach, Fla.	57	200	Coca-Cola bottler
Rosenberg, Henry A. Jr.	136	Baltimore	52	133*	Oil, real estate (inher.)
Rosenberg, Ruth B.	136	Baltimore	83	133*	Oil, real estate (inher.)
Ross, Wilhelmina du Pont	140	Greenville, Del.	76	130	Du Pont Co. (inheritance)
Rudin, Jack	116	New York City	58	250*	Real estate
Rudin, Lewis	116	New York City	55	250*	Real estate

*Assuming equal shares in common fortune. †Family fortune individually allocated.

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Four Hundred*

	Page	Residence	Age	Worth (\$ mil)	Source
Rust, Eleanor Francis du Pont	140	Thomasville, Ga.	75	125*	Du Pont Co. (inheritance)
<i>S</i> caife, Richard Mellon	108	Pittsburgh	49	500	Investments (inheritance)
Scharbauer, Clarence Jr.	114	Midland, Tex.	57	250	Oil (inheritance)
Schoellkopf, Caroline Hunt	102	Dallas	59	1,000	Oil (inheritance)
Scripps, E. W. Family	167	Orig. Cincinnati	—	650	Publishing (inheritance)
Scripps, Edward Wyllis	148	Charlottesville, Va.	73	100	Newspapers
Scripps, J.E. Family	167	Detroit	—	350	Newspapers (inher.)
Searle, Daniel Crow	129	Chicago	56	200*	Pharmaceuticals (inheritance)
Searle, William L.	129	Chicago	54	200*	Pharmaceuticals (inheritance)
Shakarian, David B.	116	Pittsburgh	68	250	Health food stores
Sharp, Bayard	123	Delaware; Florida	69	200*	Du Pont Co. (inheritance)
Sharp, Hugh Rodney Jr.	123	Wilmington, Del.	72	200*	Du Pont Co. (inheritance)
Sharp, Peter	152	New York City	51	100	Real estate
Sheehan, Jean Ellen du Pont	141	Coral Gables, Fla.	59	125	Du Pont Co. (inheritance)
Shelton, Robert	137	Kerrville, Tex.	46	150	Ranching
Shorenstein, Walter	114	San Francisco	67	250	Real estate
Silliman, Marianna du Pont	140	Montchanin, Del.	71	125*	Du Pont Co. (inheritance)
Silverstein, Larry A.	154	New York City	51	100	Real estate
Simon, Melvin	117	Indianapolis	55	200	Shopping centers
Simon, Norton Winfred	123	Los Angeles	75	200	Industrialist
Simplot, J.R.	110	Boise, Idaho	73	500	Potatoes
Simpson, Abby Rockefeller	147	New York City	25	100	Oil, real estate (inheritance)
Singleton, Henry Earl	156	Los Angeles	65	100	Teledyne
Smith, Athalie (Joan) Irvine	129	Middleburg, Va.; Calif.	49	110	Land (inheritance)
Smith, Frederick W.	156	Memphis, Tenn.	38	100	Federal Express Corp.
Smith, Kelvin	156	Cleveland	83	100†	Lubrizol Corp.
Smith, Margaret Lewis du Pont	124	Paoli, Penna.	52	200	Du Pont Co. (inheritance)
Smith, Rankin McEachern Sr.	156	Atlanta	57	100	Insurance (inheritance)
Smith, Richard Allan	156	Chestnut Hill, Mass.	56	100†	General Cinema Corp.
Smith, Vivian L.	123	Houston	76	200	Oil, real estate (inheritance)
Solow, Sheldon H.	148	New York City	40s	100	Real estate
Stark, Ray	146	Holmby Hills, Calif.	65	110	Movie producer
Stein, Doris Jones	138	Los Angeles	80	150	MCA, Inc. (inheritance)
Steinberg, Saul Phillip	140	New York City	43	130	Leasco, Reliance Group
Stern, Leonard Norman	108	New York City	44	500	Hartz Mountain Ind.
Stuart, Dwight Lyman	130	Los Angeles	58	155	Carnation Co. (inheritance)
Stuart, Elbridge Hadley Jr.	130	Bellevue, Idaho	65	100	Carnation Co. (inheritance)
Sutton, Robert B.	136	Breaux Bridge, La.	49	150	Oil reseller
Swig, Mel	145	San Francisco	65	100*	Real estate
Swig, Richard	145	San Francisco	57	100*	Real estate
<i>T</i> aper, Sydney Mark	146	Los Angeles	80	110	First Charter Fin. Corp.
Taubman, A. Alfred	108	Bloomfield Hills, Mich.	57	525	Shopping centers
Temple Family	167	Diboll, Tex.	—	200	Forest products, publishing
Thorne, Oakleigh Blakeman	123	Millbrook, N.Y.	50	200	Publishing
Thouron, Esther Driver du Pont	112	Southeast, Penna.	74	300*	Du Pont Co. (inheritance)
Tisch, Lawrence A.	112	New York City	58	300	Loews Corp.
Tisch, Preston R.	112	New York City	55	300	Loews Corp.
Trump, Donald John	145	New York City	35	100*	Real estate
Trump, Fred C.	145	New York City	76	100*	Real estate
Turner, R.E. (Ted)	118	Atlanta	43	220	TV, cable

*Assuming equal shares in common fortune †Family fortune individually allocated

	Page	Residence	Age	Worth (\$ mil)	Source
Turner, Tom E.	139	San Antonio	68	133+	Sigmor Corp.
U ihlein Family	167	Milwaukee	—	499	Beer
Upjohn Family	170	Kalamazoo, Mich.	—	315	Pharmaceuticals
V an Andel, Jay	114	Ada, Mich.	58	275*	Amway Corp.
Van Beuren, Hope Ingersoll	154	Middletown, R.I.	48	100	Campbell Soup (inher.)
Vesco, Robert	138	Caribbean area	47	100	Looted IOS, Ltd.
Vollum, Howard	139	Portland, Ore.	69	135	Tektronix, Inc.
Vose, Charles A. Sr.	138	Oklahoma City	81	150*	Banking
Vose, Charles A. Jr.	138	Oklahoma City	38	150*	Banking
W agner, Cyril Jr.	105	Midland, Tex.	48	550*	Oil
Wallace, Lila Acheson	118	Mt. Kisco, N.Y.	91	200	Reader's Digest
Walls, Carmage	153	Houston	73	100	Newspapers
Walsh, F. Howard	146	Ft. Worth; Colorado Spgs.	69	200	Oil
Walton, Sam M.	105	Bentonville, Ark.	64	690	Wal-Mart Stores
Wang, An	129	Lincoln, Mass.	62	200	Wang Laboratories
Wang, Lorraine C.	129	Lincoln, Mass.	62	120	Wang Laboratories
Wartels, Nat	160	New York City	80	100	Crown Publishers
Wasserman, Lew R.	145	Beverly Hills; Palm Springs	69	115	MCA Inc.
Weiler, Alan	145	New York City	46	100*	Real estate
Weiler, Jack D.	145	New York City	77	100*	Real estate
Weinberg, Harry	117	Honolulu; Baltimore	74	200	Real estate
Weis, Robert F.	140	Sunbury, Penna.	63	100	Supermarkets
Weis, Sigfried	140	Lewisburg, Penna.	66	130	Supermarkets
Wexner, Leslie Herbert	153	Columbus, Ohio	45	100	Retailing
Weyerhaeuser Family	170	St. Paul, et al.	—	650	Timber (inheritance)
Wharton, Albert Buckman (Buck) III	136	Vernon, Tex.	35	150	Oil (inheritance)
Whitehead, Edwin C. (Jack)	123	Greenwich, Conn.	63	200	Medical Instruments
Whitney, Betsey Cushing	117	Long Island, N.Y.	74	250	Investments (inheritance)
Whittier Family	170	Southern California	—	375	Oil (inheritance)
Whittier, Leland K.	147	Southern California	75 +	100	Oil (inheritance)
Whittier, N. Paul	147	Southern California	75 +	100	Oil (inheritance)
Wien, Lawrence A.	154	New York City	77	100	Real estate
Williams, Clayton Jr.	137	Midland, Tex.	50	100	Oil
Wirtz, Arthur M.	112	Chicago	81	300	Real estate
Wolfe Family	170	Ohio	—	275	Newspapers, TV, banking
Woodruff, Robert Winship	140	Atlanta	92	130	Coca-Cola
Woodward, Helen Whittier	147	Southern California	75 +	100	Oil (inheritance)
Z arrow, Henry	146	Tulsa	66	100	Oilfield supplies
Ziff, William B. Jr.	118	New York City	51	205	Publishing
Zimmerman, William	152	Laguna Beach, Calif.	62	100+	Retailing
Zuckerman, Mortimer B.	137	Boston	44	150	Real estate

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You can attribute it to health foods, boredom or even President Reagan, but instead of retiring, executives at large corporations are starting new careers running smaller firms.

"How much golf can a person play?"

By Paul B. Brown

JACK HANIGAN'S WIFE threatened to get him a paper route, because he kept getting underfoot. Don MacNaughton just couldn't imagine playing golf three times a week. And Mike Wright missed the challenge and the friendship.

All three ran major corporations (Hanigan, Brunswick; MacNaughton, Prudential Insurance; and Wright, Exxon, USA). And within a year of retiring they all found jobs running smaller companies. Hanigan, 71, is now chairman of (\$662 million sales) Genesco. MacNaughton, 65, of (\$2 billion sales) Hospital Corp. of America. Wright, 71, now runs (\$1 billion sales) Cameron Iron Works. All three say that the satisfaction and aggrava-

tion are preferable to a future filled just with hobbies and visits to the grandchildren.

They are not alone. John K. Jamieson left the chairmanship of Exxon at mandatory retirement age and then took a job running Crutcher Resources Corp. Robert B. Pamplin, former chairman of Georgia-Pacific, now heads \$150 million (sales) R.B. Pamplin Corp., while Harold S. Geneen, former chairman of ITT, now heads his own venture capital firm, and the list goes on. Executive recruiters and outplacement people report more retired managers than ever before are deciding to run smaller companies after they retire. Why? The theories differ.

Says Gardner Heidrick, cofounder of the Chicago-based Heidrick &

Struggles executive recruiting firm: "Age acceptance has increased, as society gets more complex and competitive. These fellows fill a very significant gap, especially where companies are having problems."

But why can't they make that contribution at their old company? Generally, their former employers strictly enforce a mandatory retirement policy to avoid choking off advancement opportunities for younger executives. And Joseph Jannotta, chairman of Jannotta, Bray, a Chicago-based outplacement firm, adds that other major corporations have little room for an executive over 60.

That leaves retirement or taking over a smaller firm. Thomas B. Hubbard, chairman of a New York outplacement firm called THinc International, expects more to go to smaller firms. "The trend is on and it will accelerate," he says. "People are not dying off as early. People are taking better care of themselves. As a result, you have people who aren't burned out at 62 or 65.

"Our President has set quite an example," Hubbard says. "A lot of guys who were tired of working look at him and say, 'Hey, maybe I can keep going, too.' Many of these guys can take six months of golfing and boating and then go bananas."

In Jack Hanigan's case, it took eight months. "My wife and I went on a long cruise to the South Pacific, Mali and Singapore," he recalls. "When I got back to the house, my wife threatened to get me a paper route, so I would have something to do."

What saved Hanigan from peddling papers were the directors of Genesco, the troubled shoe and apparel manufacturer. They came to him seeking advice on how to turn around a company that had four straight years of



Jack Hanigan, chairman of Cameron Iron Works
"You come much closer to the action."

losses. Hanigan had helped turn around Brunswick in the Sixties.

"Well, I went down there for a couple of weeks, talked to all the people and saw what had to be done," he says simply. "It is not very difficult if you come in from the outside, because you can look at the situation with new eyes. I told the directors they would have to sell off divisions and they needed someone with a good relationship with the banks to help restructure the debt. They asked me to step outside for a minute, and when I came back they offered me the job. I didn't hesitate. I enjoy this sort of thing."

So did Don MacNaughton, who stepped down at Prudential at age 61. "When I first became CEO, at age 51, I told the board it was my belief that people shouldn't hold the job any longer than ten years. They pooh-poohed me, and said once I had the power, I wouldn't want to give it up. In some ways, they were right. But I periodically reminded them of what I said, so when the ten years were up, it made my decision to leave easier. A lot of work of a chief executive is routine, like attending business management conferences. It is very important, but after you have done them for several years you get bored. That's no good for you or your company."

"I thought about whether I wanted to take on a full-time job when I left. But I realized that there is nothing else I would rather do. I knew I didn't want to travel all the time, and how much golf can a person play? I wanted a job that would test me, and had some risk to it," he adds. "I wanted to

deal with a new set of problems but still do exactly what I had been doing. It took me a while to come to that conclusion."

It didn't take Mike Wright any time at all. "Great Scott! I have spent my whole life in business," he says. "It's a great life and I enjoy it. I get more pleasure in business than I do playing tennis or something else. So I retired for a year and it was a pleasant year. I got my will all straightened out. I set up a trust for my children. My wife and I drove to California. We managed to keep pretty busy."

"But after a year things were pretty quiet, and the folks at Cameron* [a Houston-based oil drilling tools manufacturer], asked me to come take a look and suggest what should be done. I did a consulting job for a couple of weeks, made some recommendations, and they asked me if I would run the company. I gave them an answer within an hour."

Like other executives who have gone to run smaller companies, Wright said he likes the fact that the organization chart is simple and "in 15 minutes you can get everyone together and make a decision. You are much closer to the action."

"Large companies have planning



HCA Chairman Donald MacNaughton
"There is nothing I'd rather do."

departments and a battery of economists and lawyers. At Exxon we had 150 lawyers. Now we have 4 or 5. At Exxon we had 1,500 lawsuits going all the time. Here, when we have a lawsuit, it's an event. When it comes to planning, the operations people do it. You can also use the forecasts of the large companies. They publish them and they are available. They are all very much alike."

Wright tells a story to explain what it is like to go from managing 160,000 people to 11,000. "I took over at Cameron in May and our fiscal year ends in June," Wright says. "So we had to get the annual report out. We had a meeting on Friday, and the guy putting it together said, 'We'll do the president's letter on Monday.' Well, at 8 a.m. Monday morning I walked in and said, 'Where's the draft?' They looked at me like I was nuts and said, 'What draft?' I said, 'You mean I'm supposed to write the thing myself?' At Exxon the thing would have been massaged for three weeks before I even saw it. So I sat down and wrote it. I like that."

Some second-career top executives are ready to try it a third time. Listen to Jack Hanigan, who at age 71 has installed his replacement, Richard Hanselman, 54: "I plan on leaving here in about three years, and I still want to work. If you know of anything for me starting in 1985, I'd love to hear from you." ■



John Hanigan, chairman of Genesco
"I enjoy this sort of thing."



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KOREA U.S.**Korea Relations:**

Korea began to emerge on the world economic scene in 1962. It had previously suffered 40 years of Japanese domination, division from the Soviet "occupied" zone, and as deadly a war as has been recorded in modern times. Resource poor, over-populated, and culturally unknown, it seemed a poor candidate for economic stardom. U.S. contact with Korea began more than 100 years ago with the arrival of missionaries and the U.S. Navy. Hostilities followed, opening formal ties in 1952 with the treaty whose centennial we celebrate this year. Despite some setbacks, economic relations were strengthened. In 1905, as part of the Treaty of Portsmouth which ended the Russo-Japanese War, President Theodore Roosevelt consigned the country to the Japanese economic and political sphere of influence over the strong protests of the American Minister in Seoul. After, economic relations were re-established and the U.S. carried on its economic business with Korea indirectly through its embassy in Tokyo, although similar relations were maintained through the American consulate in Seoul. American Missionary influence remained strong, however, particularly through their schools where students comprised a hard core of opposition to Japanese. In 1945 Korea was divided into American and Soviet zones, in order to facilitate the Japanese surrender. The split was permanent with the creation of two mutually hostile Korean regimes in each zone. Fearing a major war between Western Europe with the Soviets, that they would be unable to defend the South, the U.S. drew a defensive perimeter which excluded North. Drawn into the Korean War by North's attack, the U.S. provided generous aid to reconstruct the South for the next ten years. By the time the Rhee regime, the U.S. began to pair that its aid could not over-

KOREA FUELS ITS ECONOMIC LIFT-OFF



come the poverty and initiate self-sustaining growth.

The government of Park Chung-Hee, installed in 1961, realized that U.S. aid was eventually coming to an end and sought military security through economic strength and independence. It made the difficult decisions to increase saving and investment and to export in order to grow. It set goals and monitored performance, creating a unique management system which set in motion the progress which has subsequently so impressed the world.

Why Korea Grew:

Many factors explain Korea's growth. Indeed, it is the subject of an eight-volume study produced jointly by the Harvard Institute for International Development and the Korea Development Institute. The excellent summary volume is entitled *The Economic and Social Modernization of the Republic of Korea* (Cambridge: Harvard University Press, 1980). Particularly noteworthy is Korea's Confucian heritage which stresses disciplined behavior and social harmony. This produces close government-business collaboration as well as a cooperative, highly productive labor force and management. Confucianism also values literacy and education, which have permitted Korea to steadily increase the technical difficulty and value of its manufactures.

Other factors favoring Korea's growth include a favorable world economic environment for an export-led development strategy, political stability, an American security commitment, and effective government policies, particularly in the monetary and fiscal areas.

The U.S.-Korea economic relationship has prospered. As recently as 1968, Korea exported \$237 million in goods to the U.S. and bought \$449 million's worth. Last year, Korea's exports to the U.S. were \$5,661 million and its imports from the U.S. were \$6,374 million. That year, it was the 13th largest market for U.S. exports and the 15th most important U.S. supplier. Korea has foreign borrowings of \$33 billion outstanding, much of it directly and indirectly from U.S. banks. U.S. investments in Korea number 35 and are mostly joint ventures. These are valued at \$450 million. Technology transfers, either by sale or lease, are countless.

Economic Challenges Over the Past Eight Years:

Korea's economy has encountered a series of economic challenges in the last 8 years, beginning with the first oil shock of 1974. GNP recovered quickly



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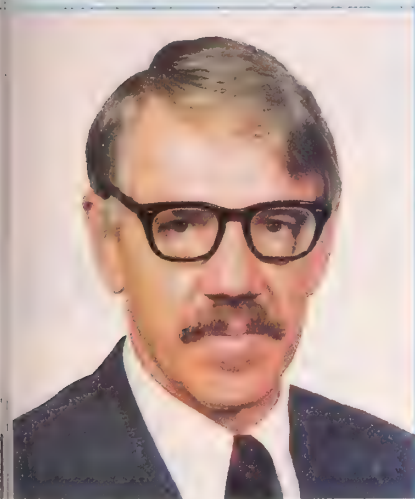


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grew at the fastest rate in Korea's
 experience from 1976 to 1978. That
 growth, however, was not sustainable
 because wages rose much faster than
 productivity. Inflation, always a
 problem in Korea, took off. Even as the
 government took measures to slow the
 economy, the second oil shock occurred
 in 1979. The economic effects of
 President Park's assassination and
 increasing political uncertainty in 1980
 compounded when the grain crop
 failed. The government of President
 Chun Doo-Hwan has restored political
 stability and, like its predecessor,
 devoted itself to economic growth.
 The economy recovered in 1981 and
 inflation has been virtually stopped in
 1982, but world recession and high
 interest rates have sharply cut the
 projected increase in Korean exports, the
 engine of Korean growth.



Mr. Bennett is the President of the Korea
 Economic Institute of America and formerly Vice
 President, Syllogistics, Inc. He was formerly
 Counselor of the Embassy for Economic and Com-
 mercial Affairs, Seoul, Korea.

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How Korea Has Responded To These Challenges:

Most of Korea's problems arise from conditions outside of Korea. While they are beyond Korea's control, the manner in which the country reacts magnifies or minimizes the results. What has been Korea's response?

Typically, the Korean economic authorities have pursued a highly pragmatic course. They have long recognized that the growth of the Korean economy has made it increasingly complex and that central government, which drove the system and made many of the detailed decisions, can no longer expect to do so and be right most of the time. They have, therefore, used their problems as the vehicle to introduce a major set of reforms.

To understand the reforms, one must understand the economic management system as it existed up until this year. Government set goals and monitored results. It used access to credit from its banks and tax policy to generate incentives for companies to do what government wanted.

The old system was highly successful. Real GNP growth averaged 8.6 percent from 1962-1981. However, it also produced high rates of inflation and errors, as in the late 70's when special low interest loans were used to channel new investment into chemicals and heavy industry. The Fourth Five-Year Plan, which covered 1977-81, had identified these two fields as the best for future investment because they promised high wages and high investment returns. They turned out to be poor choices when changes in energy costs made other countries, particularly in the middle east, the best place to locate such industries.

The New Plan:

The Fifth Five-Year Plan, published in September 1981, began to be carried out this year. Previous plans had been guided by welfare objectives—increasing employment and real wages—to provide Korea's people improved living standards. The new plan shifts priority to welfare through stabilizing

the economy. It seeks to cut the rate of inflation by a series of measures:

- 1) raising productivity and quality,
- 2) limiting wage increases to productivity increases,
- 3) increasing competition by bringing in foreign firms and importing a greater variety of goods, and
- 4) eliminating the preferential credit to favored industries by going to a uniform loan rate and selling off the government-owned banks.

Since June 1981, government policies have worked incredibly well. The consumer price index which had increased on an average of 29 percent in 1980 and 23 percent in 1981, was up only 5% in the 12 months ending July 1982. At the same time, exports have performed below expectations—they rose 3.5 percent in the first six months of 1982, well below the target of 18 percent for the year. Imports have fallen 7 percent and invisible earnings have sharply improved. Thus the balance on current account (and with it, the need for external financing) has dropped sharply to \$724 million in the first half from last year's \$2.7 billion and is well below the projected level for this year.

A New Economic Policy:

Having dealt with the dual problems of inflation and balance of payments, which had been of primary concern since 1978, the Korean authorities felt free to make a major change in economic policy. This change was announced in a set of measures June 28.

The objectives of this policy shift were major structural reform and economic revival. The reforms had been heralded in both the Fifth Five-Year Plan and the Economic Management Plan for 1982. They were focused on two issues, removing incentives which allocated resources uneconomically and dismantling the system of direct government intervention.

The Plan itself began the process by establishing overall objectives for growth, but stating that the suggested strategy for achieving them was only meant to be indicative, not compulsory. It will be up to the individual companies to decide, for example,

KOREA



U.S.

whether to invest in textiles or chemicals. Loans with identical interest will be available for either or both in the future.

The June 28 measures began implementing the reforms by lowering and unifying corporate taxes and bank lending rates. Lending rates were cut 4 points to 10 percent, making them among the lowest in the world. The drop in inflation (and the low tax rate on interest income of 16.75 percent) still means that the corresponding 8 percent deposit rate gives the saver a positive real rate of return. Although some concern about capital flight has been expressed because of the difference between foreign and domestic lending rates, the balance of payments seems strong enough to stand a reduction in net foreign borrowing, at least until the time when U.S. interest rates are expected to come down.

The schedule for denationalizing the

commercial banks was accelerated and extended to all of them. In the future, they will be subject only to general policies on reserve ratios, discount rates, and open market operations of the central bank.

Fiscal restraint will decrease the government deficit. Together, fiscal policy and looser monetary policy are expected to be stimulative, reviving domestic demand. The money supply will grow by more than the targeted 25 percent. Should revival of domestic economic activity reignite inflation, however, the authorities have declared that they will move quickly to halt it.

Future Expectations:

The growth target in the Fifth Five-Year Plan is 7.6 percent. This year's Economic Management Plan originally sought 7 percent for 1982, but subsequently reduced the figure to 6 percent.

In the first quarter of 1982, 4.2 percent was actually achieved, and a low figure seems likely for the second quarter. To achieve 6 percent for the year will require a major increase in the second half, probably to at least 8 percent. Such a result will depend on revival of exports and an expansion of domestic activity.

Achieving the 1982 growth target will be difficult. Still, Korea is doing remarkably well under difficult circumstances. Korea has managed to show positive growth while that of its competitors, Taiwan, Hong Kong and Singapore, has been smaller or even negative.

Regarding 1982, it is well to remember that one year does not make a trend. Based on reasonable assumptions about the rest of the world, Korean plans remain well-formulated, its strategy appropriate, and its targets feasible.

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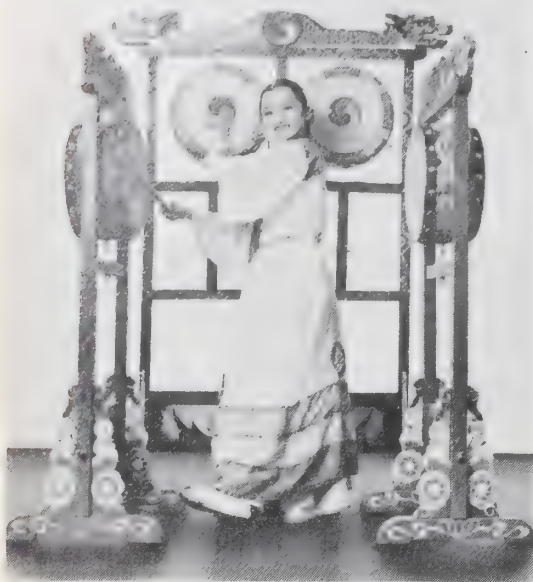
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It is looking for a second economic take-off and is getting ready to take advantage of a world economic upturn. While some years must necessarily be below the average, others will exceed it. Korea has had many of both and there are still four years of its current Plan remaining.

Korea remains an active and interesting market for American business. As the dollar has appreciated, the Korean won has been depreciated, maintaining the trade-weighted exchange index at last December's level. Sales to the U.S. in 1981 totalled \$5.7 billion and have grown 12 percent in the first five months of 1982. Depreciation in dollar terms makes buying from Korea particularly attractive, since won prices for exports have actually declined on average.

Although Korea's demand for imports has dropped, much of this occurred in rice and petroleum, as well as in raw materials primarily used in exports. As Korea upgrades quality and productivity and moves into the production of more sophisticated, high value-added manufactures, particularly in the machinery field, the market for capital goods remains a likely source of sales. Work is now beginning on a list of major investments set forth in the Fifth Five-Year Plan. They range from subways to ports, and from power generating facilities to river basin development. Korea's imports from the U.S. totalled \$6 billion in 1981 and down 1% in the first five months of 1982.

Despite this year's improvement in the current account, Korea's need for foreign capital to finance projects and imports is expected to grow. Many older loans will need to be paid back and exports of Korean capital goods to third countries will need to be financed. The Fifth Five-Year Plan projects a requirement of \$46.5 billion from 1982-6. American financial institutions will find ample opportunities to increase their lending.

Opportunities for innovative participation in the Korean economy are many and growing. For example, a Korean electronics firm has established a color television assembly plant in



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Korea's Trade with U.S.

Unit: \$ Million

Exports to U.S.	Imports from U.S.	Trade Balance with U.S.
395.2	584.8	- 189.6
531.8	678.3	- 146.5
759.0	647.2	111.8
1,021.2	1,201.9	- 180.7
1,492.2	1,700.8	- 208.6
1,536.3	1,881.1	- 344.9
2,492.6	1,962.9	529.7
3,118.6	2,447.4	671.2
4,058.3	3,043.0	1,015.4
4,373.9	4,602.6	- 228.7
4,606.8	4,890.3	- 283.5
5,550.9	6,949.7	- 488.8

that the market demands much skill and effort, but that the rewards are very high. U.S. investors should find Korea increasingly remunerative for new ventures.

Korea's Future Role:

Korea emerges as a leading member of the vital Pacific basin economic community. Japan remains out front, but together with Korea, Taiwan, Hong Kong, and Singapore, are closing the gap, and Thailand, Malaysia, the Philippines and Indonesia show capabilities of joining the same distinguished trading group. Most Americans fail to realize that trade with this area has long since out-run its trade with the developed nations of Western Europe, and that the gap is getting larger each year.

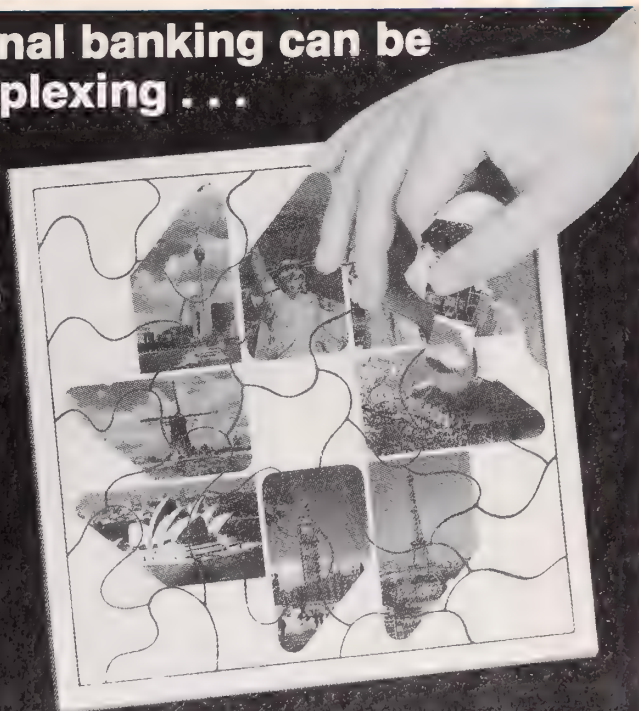
Korea's activity on the world stage grows as each year passes. Its pavilion at the World's Fair in Knoxville is

matched by world-wide participation in this year's International Trade Fair in Seoul. Korea will host the 1984 meeting of the International Monetary Fund and the 1986 Asian Games. In 1988, those who can't attend in person can look forward to the Olympic Games on TV from Seoul. It's come a long way from the utter devastation left when the North Koreans overran it in 1950, and the Chinese in 1951. To think of Korea in those terms now is an anachronism totally out of accord with the hustle and bustle of this modern, lively, and increasingly important world capital.

John T. Bennett

ma. It uses circuits and chassis in Korea, cabinets from North Carolina and tubes from Pennsylvania. Management anticipates that this nation will give it a cost advantage in the U.S. market. Korean coal is developing mines jointly with U.S. companies in Pennsylvania and Alaska to feed its growing energy needs. Korean shipping and agricultural interests are investing in joint-venture projects and port facilities in Oregon. The natural advantages of interdependent development of the Korean and U.S. economies have only begun to be exploited. Technology is particularly important to Korea's plans for growth is foreign technology. Korea strongly prefers to acquire new technology by purchase or royalty payment. However, it recognizes that it will have to recruit foreign investors to get much of the know-how it believes essential. Its Fifth Five-Year Plan calls for a growth in foreign investments from \$1.2 billion to \$3.7 billion in 1986. Korea offers the foreign investor a particularly effective labor force, a large growing market and a track record of growing exports that is without doubt. Most foreign investors have found

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As most of the tax benefits are stripped from professional corporations, doctors and lawyers will have to seek shelter elsewhere.

No more Marcus Welby, Inc.

By Robert Teitelman

AS THE TAX BILL passed by the House in late August neared approval, you might have thought from reading the papers that the only people who had to fret would be restaurateurs who might lose some of their corporate patrons. Actually, that's far from true. This time it's the doctors and lawyers. They have just lost many of the perquisites of the so-called professional corporations.

"Professional corporations are dead," says Coopers & Lybrand's Harold Dankner. "There's simply no reason to form one anymore."

This could be a real body blow to a lot of doctors and lawyers. After all, PCs allow these high-income professionals to take advantage of lower corporate tax rates.

In the late 1960s medical men with high individual incomes were paying a higher tax rate than many small companies were and losing out on the tax deductions that corporate employers got from corporate pensions. It seemed grossly unfair.

So in the early Seventies doctors and other professionals were permitted to set up their own one-man corporations. Compared to unincorporated retirement plans, the government antidiscrimination and benefits rules, which force you to treat all employees of a company equally, were less onerous than corporate plans. Soon

lawyers, accountants, architects and engineers were following suit.

Everything would have been all right if some of the professional men hadn't started abusing their professional corporations and virtually eliminating their taxes.

Take corporate lawyer Smith, 60. Smith sinks half his income of \$200,000 into his pension plan and pays no taxes on it. But he needs more money to live. So he borrows \$50,000 from the bank at 15% interest and lives on that. Instead of paying \$100,000 in taxes at the 50% rate, he's

paying only \$50,000 in taxes and \$7,500 in interest. And he deducts that. The only problem, according to Richard Reichler of Ernst & Whinney, is, "You've got to watch the calendar. There's a ten-year limit on these kinds of borrowing before the IRS comes looking for its money."

There are even more imaginatively elegant twists. Lawyer Smith could have thrown the \$100,000 into the pension plan, then borrowed \$50,000 directly from the plan to invest in a real estate tax shelter. That way he gets a deduction from the shelter, plus another deduction on the interest on the money lent to himself.

Of course these examples are extreme, but it is against such abuses that the new law is aimed. It singles out "top-heavy" plans in which 60% or more of the contributions for benefits go to certain key employees and requires that the non-key employees get a decent piece of the action. That would prove expensive enough to dissuade most professionals from forming a professional corporation.

Some will slip through. If a law firm has 100 partners, each with 2% of the partnership, then it's not considered top-heavy and escapes the bill. But if one partner gains more than 5%, or has 1% and makes more than \$150,000, or owns one of the ten largest interests in the company, then the entire firm must meet all the requirements of a top-heavy plan.



The new law doesn't stop there. It also strictly limits the amounts a professional can borrow from a pension plan, even for legitimate capital expenses. Where once the sky was the limit, professionals now can borrow not more than \$50,000 a year.

Doctors and lawyers still have some shelter from the taxman. Congress is beefing up Keogh retirement

plans for the self-employed, increasing the maximum allowable tax-free contribution to such plans from \$15,000 to \$30,000 or more by 1985. What's more, it adds many features that made corporate retirement plans so attractive, such as benefits that reward past service by crediting pension plans. That feature would allow a 53-year-old doctor who is starting a

retirement plan to make contributions for all his prior years' practice in addition to contributions for the current year.

But about the only professionals who will remain calm about the whole thing are the accountants. After all, with all those doctors and lawyers on the lookout for some new shelters, business is bound to pick up. ■

The home sewing market is showing new signs of life. Some of the suppliers, like House of Fabrics, still can't quite believe it.

A stitch in time

Home sewing c. 1920: "If you try to sell to home sewers the way you market health and beauty aids or ketchup, you're bound to lay an egg."



By Thomas Jaffe

LISTEN CLOSELY and you may be able to hear it: the distant, fitful hum of sewing machines. Up until recently only about 20% of American women used their Singers twice a month or more. But with the sorry state of the economy and changing lifestyles those machines are coming out of the closet more often these days. Just look at the earnings of man-

ufacturers supplying the home sewing market: Wm. E. Wright, a \$61 million (sales) purveyor of everything from ribbons to zippers, reported a 65% increase in profits, to \$3.7 million, in its June fiscal year. Wright's 6% margins are the best in a decade. Earnings projections for retail fabric companies like Fabri-Centers of America and House of Fabrics (see box, p. 204) call for a 30% to 40% increase this year.

Nor has this sudden burst of activ-

ity been lost on investors. Since last September the price of House of Fabrics common has nearly tripled, to a recent 18. Wright, traded over the counter, has doubled, to 12¼. And Fabri-Centers of America has almost doubled, to 17¼.

Why the suddenly rekindled interest in needle and thread? Simple economics. Today over half of American women work. They want something to wear on the job with enough style that it will look good for at least a couple of years, not just one season. In the midst of a recession with unemployment at its highest level since the Depression, if you can make your own dress for as little as 30% of what it would cost you to buy it in a store you start thinking about your sewing machine.

This time the patternmakers are ready. "We're aiming at the customer who wants to make something simple and fast," says Arthur Joinnides, vice president of American Can's Butterick Fashion Marketing Co. and the publisher of *Vogue Patterns*. Yesterday's enormous catalogs, with patterns for 700 styles or more and frighteningly complex instructions showing as many as five views of the finished dress, frightened off a lot of potential home sewers, and patternmakers seem to have learned their lesson.

In 1980, for instance, Butterick introduced its See & Sew line—only 96 styles on their own display stand. There are fewer pattern pieces. There's only one view to consult and instructions that mercifully allow for a graded fit. "After all," laughs Joinnides, "who's a perfect 8 or 10?" Best of all, their price is only \$1.19 each, vs. the \$2.75 pattern average. (The total U.S. market is an estimated \$275 million.) After just three years See & Sew accounts for some 7% of more than 100 million patterns sold annually.

There have been other changes in the market since Wilbur Peters, chairman of \$122 million (sales) Minnesota Fabrics Inc., started in fabric retailing 23 years ago. "We had loads of stuff piled high and priced cheap," he remembers. "We specialized in off-goods, overruns and discontinued pat-

terns. If we tried that approach today, we'd be sunk." Last year many women went to MF's 92 stores to buy fabric for patterns designed by the likes of Calvin Klein, Yves St. Laurent and Ralph Lauren.

"We're in the fashion business, pure and simple," says Michael Feuer, vice president of \$173 million (sales) Fabri-Centers of America, Inc. "We just happen to market it by the yard rather than by the size." To do this successfully, however, Feuer says you also must offer full customer service. Minnesota has added 50 home economists to its sales staff to help beginners get in the home sewing habit. Feuer thinks the reason some of the giant retailers like K mart couldn't

make it in the business is that their operations were basically self-service.

After all, many of the big retail chains scrambled into fabrics in the first place to cash in on the double knit craze. "Double knits were so easy to sew that women just bought patterns and a bunch of material and waltzed out of the store," says Wes Phillips, senior fabric buyer for \$2 billion (sales) TG&Y Stores of Oklahoma City. "It was so easy from the retailer's point of view that once the double knit days were over, plenty of guys sat there asking themselves, 'Where did all our quick sales go?' and never got around to building a true organization for their fabric departments."

Other discounters like Wal-Mart,

Zayre and TG&Y made the adjustment and survived. Says Malcolm Sherman, general manager of Zayre Stores: "If you try to sell to home sewers the way you market health and beauty aids or ketchup, you're bound to lay an egg."

Nobody is predicting a long-term boom in home sewing. And the recession that has encouraged this do-it-yourself economizing won't last throughout the Eighties. But there is no question that home sewing has a new lease on life. "If we could get just one-tenth of the customers for ready-to-wear clothes to start sewing more," says Art Joinnides of *Vogue Patterns*, "the size of the industry would double." ■

Eve made a fig leaf

To hear David Sofro tell it, you're in retail fabrics, you've got a hole in your head. Margins are low—4% net "if you're lucky." The average sale is a piddling \$7.50 and it's hard to build volume. Yet inventories are large because customers want to rummage through several bolts of cloth and a half dozen sets of buttons. "If you can do well in another business, what the hell do you want the retail fabric business for?" says Sofro in his amiable growl.

David Sofro? He's the 70-year-old founder and chairman of House of Fabrics, the nation's largest retail fabrics chain. A high school dropout with 50 years in the fabrics business, Sofro is the kind of entrepreneur who can poke fun at his son's college background while conceding that modern brains and technique saved House of Fabrics.

In 1978, operating on the principle that "you can't sell from an empty wagon," the company carried a back-breaking inventory of \$61 million, which turned only 2.3 times a year. That was fine when financing cost 6%, but not in the late 1970s, when interest rates hit 18%. Sofro's son, Barney—now the company's 40-year-old president—and Chief Financial Officer Gary Larkins spotted disaster in the making, and they acted. Over the next two years House of Fabrics pared stock by \$20 million, taking mark-downs on tired inventory.

The young management team instituted strict budgets for the chain's 565 stores. Now inventory turns 3.5 times a year. Earnings, which collapsed in 1978 from \$1.18 a share to 42 cents, came all the way back and then some—to \$1.60 a share in the fiscal year ended Jan. 31.

Says Barney Sofro, who started with House of Fabrics as a store manager back in 1964, "For a long time we didn't know much about what the home sewer really wants." When research revealed that 30% of sales

went toward crafts and home decorating rather than clothing, House of Fabrics opened 175 needlecraft departments. The cash-rich company—with a balance sheet that is 95% equity—is adding Singer sewing machines, trying to do what Singer itself couldn't: make money selling them. (Singer, the largest sewing machine manufacturer, was forced out of retailing by swelling overhead and lackluster sales.) Now the younger Sofro has acquired 280 Singer dealerships and figures that the machines, selling at \$350 apiece, will be natural revenue builders.

Is home sewing a changed business? A new opportunity for the Eighties? Pardon David Sofro's yawn. "This is not the Hula-Hoop, you know. Home sewing has been going on for millions of years," says he. "Eve made a fig leaf, didn't she?"—Roger Neal



House of Fabrics' Sofro and son
"This is not the Hula-Hoop."

Donald Fisher is a master at selling blue jeans. But what happens when the customer wants something else?

Widening the Gap

By Howard Rudnitsky

BACK IN 1969, Donald Fisher had a great idea. He opened a small store near San Francisco State College called The Gap that specialized in Levi's denim jeans. Nothing fancy, mind you. Just a fun place where students could find a broad selection and easily try on styles galore until they found a perfect fit.

Fisher's feel for the market was perfect. He is the president of The Gap Stores, Inc., now a public company with profits of nearly \$12 million last year on sales of \$417 million. It has 534 outlets nationwide and claims to be Levi Strauss' largest customer. Fisher, formerly in real estate, and his family own 58% of the firm's stock, worth some \$50 million.

These days, however, the jeans boom is fading and competition is intense. A southwestern jeans chain with over 100 stores went out of business early this year. Other retailers have gotten out of jeans, and even County Seat, a subsidiary of Super Valu stores, has cut back expansion plans. Since June, Levi Strauss has been selling for the first time to giant chains like Penney and Sears.

Though The Gap's sales have increased by some two-thirds since 1978, profits have stayed flat at nearly \$12 million. Not bad, considering the environment. Fortunately, Fisher has a solid balance sheet, and he stayed away from designer jeans. Even though The Gap has continued expanding and bears the high cost of financing its inventory, long-term debt is only 24% of total capital. "That allows us maneuvering room in time of adversity," explains Fisher. "We have been controlling inventories and cutting operating costs. Our margins actually improved in the

first half of this year despite a sizable rise in interest charges."

Fisher managed this by paring corporate staff, using more part-time help, curtailing employee discounts and holding advertising costs in check. That wouldn't have been nearly enough, however, if The Gap hadn't taken steps to broaden its market years earlier. Fisher has been steadily reducing his dependence on Levis. They once accounted for virtually all of his volume; now that figure is about 30%. More profitable private-label merchandise takes up the slack

and lets The Gap expand into casual shirts and tops.

In the early 1970s Fisher catered mainly to teenagers. But with the population aging, he started going after slightly older customers—including working women—who have more money and who want a broader line. Fisher reacted by selling more "active wear," the industry buzzword for athletic clothes.

Fisher has been tinkering with The Gap in other ways. First he went into shopping malls, then moved to freestanding stores and some downtown locations, including ten Gap stores in New York City.

In the past Fisher kept his outlets shoe-box small (4,000 square feet). Now, however, bigger may be better. To sell more casual clothes Fisher needs more space. He also wants to expand per-store profits, which will enable him to attract better managers.

One of Fisher's solutions is called Super Gap, a store that is three times the size of his typical outlet. So far there are about 14 in operation, and 15 to 20 more are planned for next year. Also under way are plans to expand the size of some existing Gap locations by 50%. "When you shop in Super Gap or a remodeled Gap, the jeans image will still predominate," Fisher explains. "All we are doing is widening the assortment of items we already carry."

Fisher is making those changes cautiously. He doesn't want to blur his clear image and lose the loyal customers he already has. Instead, he wants customers to live with The Gap's reputation for a broad jeans selection and competitive prices—then tempt them with other merchandise.

The second half of this year will provide a good test for his strategy. What with back-to-school business and Christmas, the period traditionally accounts for over 85% of The Gap's earnings. "I think The Gap has done a good job controlling costs and expanding into casual wear. With interest costs coming down and a modest improvement in business, they'll probably enjoy renewed earnings growth," says Morgan Stanley retailing analyst Walter Loeb.

Whatever happens, Fisher has clearly ridden out one of the toughest retailing storms in years. And just as clearly he recognizes that The Gap's marketing concept, which worked neatly in the Seventies, needs rejuvenating. The well-known advertising campaign for Levi's Gentlemen's Jeans sums up his current strategy. "All we need," says Fisher with a laugh, "is a *scosh* more room." ■



The Gap's Donald Fisher
Counting on casual clothes.

Technology

Edited by Stephen Kindel

The Japanese built their camera industry on high-quality optics. Just when their technology could become outmoded, American technology rescues them.

A missed opportunity?

ON THE EVE of World War II, Japanese military planners were faced with an excruciating decision: Should they invest scarce money and talent in developing electronic ship- and aircraft-tracking radar and sonar equipment, or should they place their bets on Japan's precision optics industry for the range-finding, navigation and bombing aids needed to conduct a war? They chose optics. At the same time, their American counterparts went for electronics.

The U.S. won the war of the Pacific. But the Japanese won the postwar battle of photographic equipment. At the

end of the war, the Japanese were left with a substantial surplus optics manufacturing capability. Their major pre-war competitors, the Germans, had been bombed into ruins. The Japanese were handed a captive market: In American post exchanges they could sell cameras to more than half a million bored Allied soldiers, sailors and marines who had spare dollars and a yen to take pictures of the exotic Orient to send back home to their families.

With simple sand-cast bodies, uncomplicated iris shutters, but very high quality lenses, Japanese cameras quickly established a solid reputation

for consistently delivering top-notch pictures. This reputation was firmly established during the Korean War, when American combat photographers began to swear by their Nikkor lenses.

Today, Japan's camera industry rules the world. Camera exports to the U.S. alone last year were in the neighborhood of \$400 million; add-on lenses for 35mm cameras brought \$200 million more. But while the Japanese have improved their methods of production and the electronic sophistication of their cameras, their lens technology stems from work done by the Germans back in the 1930s and copied in Japan.

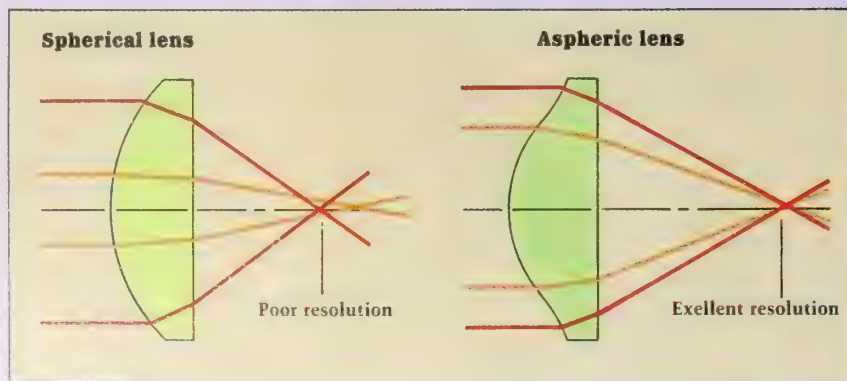
The design limitations inherent in using 50-year-old technology become tellingly apparent whenever special situation lenses are needed: telephoto zoom and wide-angle lenses. These have become more complex as their operating capabilities have increased. The reason for that is relatively simple: As light moves through a camera lens, it is bent in some way. In order to bend it exactly the way you want, you have to use combinations of lenses.

Since there are imperfections and aberrations in even the finest lens elements, these must be compensated for with still more elements, as well as with special coatings that control glare and light dispersion. All of these bits of high-quality optical glass must then be precisely fitted together and held rigidly in place. Even though the Japanese made steady improvements in their original optics technology and have been able to produce high-quality lenses with remarkable consistency, there ought to be a better way of getting such a complicated job done.

There is. It's called aspherics, and it works like this: Every ordinary lens is a section of the face of a sphere of some size. As you move away from the center of the lens, light is diffracted at an increasing angle, so that instead of focusing all of the light that passes through it into a single point, as it is theoretically supposed to, a single lens element actually has a somewhat jumbled focal point.

That's what the multiple lens elements can compensate for. In a good zoom lens, for instance, there are upwards of 20 elements to do the necessary job. If, instead, you needed only a single lens, or a small combination of lenses that could reliably focus all of the light coming into the camera into one very tight spot, you not only could make camera lenses lighter but you could even change the basic design of the camera. That principle is what has driven research into as-

Tightening the focus



A conventional lens is a section of a sphere. As you move toward the edge of the lens, light is bent more—diffracted—so that the focal point becomes blurred. But an aspheric lens compensates for the amount of curvature on the face of the lens, minimizing diffraction differences between the center and edge. The result: a sharper image.

phoric—nonspherical—lenses, and is now paying off in mass-produced glass aspheric lens elements. But not from the Japanese.

German optics maker Carl Zeiss, which pioneered work with aspherics before World War II, in 1975 developed a method of automating production of such lenses for cameras that relies on the creation of a bonded glass-plastic lens element. In the Zeiss process, an epoxy-like gob of plastic is squeezed into its appropriate aspheric shape by a pressing tool; when the plastic hardens and has adhered to the glass surface, the tool is then removed.

It never caught on. Camera purists rely on the optical purity of *glass* for their best lenses. Most opted to hold out for a mass-produced glass aspheric. They didn't have to wait long. Eastman Kodak Co. to the rescue. When Kodak unveiled its new disc camera at the start of this year, camera analysts were surprised at the thinness of the disc design. The secret? An aspheric element in the four-element glass lens that simultaneously shrank the size of the lens elements and produced exceedingly sharp pictures. All this at a wide f/2.8 aperture.

You don't have to be a camera buff to grasp the implications: The new lens greatly reduces the performance gap between a simple Kodak camera and an elaborate Japanese one. It offers a chance to redesign and bring down costs on more sophisticated cameras. A hard blow to the Japanese industry. A leg up for America?

Well, not quite. Kodak does not seem to want to take on the complexities of manufacturing 35mm cam-

eras. Meanwhile, another American company, Corning Glass Works (*see p. 82*), is developing its own aspheric lens production capability and hopes to move the process over to Japan, lock, stock and barrel. Why?

"That's where the opportunity is," answers Robert Turissini, Corning's senior vice president for the company's Latin America-Asia-Pacific sales division. "We have a marketing team in Japan working on it right now. One area where there's a lot of potential is for video and audio laser pickups that the Japanese are putting into their new consumer electronics gear. The other area, obviously, is cameras."

Sad, isn't it? Technology gives the U.S. a chance to end-run the Japanese and instead we hand them the ball. Corning's Turissini concedes American companies have given away wholesale major new technologies. "This kind of thing has been called the biggest fire sale of the century," he says. What makes this especially puzzling is that Corning has already had some bad experiences with the Japanese. Turissini's tale of woe: "In the early days of optical waveguide we were forced to license our technology by Nippon Telephone & Telegraph. They said that they would not buy from an American company or from a company in which Corning had a share. If we didn't license the technology they would design around our patents. Well, it's an important market to us, so we let it go."

Nevertheless, Corning is intent on marketing its aspheric technology in Japan. Why so? "Everyone complains. But everybody participates," shrugs

Turissini. "We're looking to introduce new technology into Japan that will push our sales from \$116 million to the \$500 million area, and there just isn't an American manufacturer who can take advantage of our aspherics technology."

Why not Kodak? The Rochester, N.Y. giant has been nervously eyeing the 35mm market for some time. Kodak dominates the production of 35mm film, owning a market share estimated as high as 80%. But the Japanese are tough competitors. Fuji, Japan's largest filmmaker, is making steady inroads. At the same time, another Japanese company, Sony Corp., has loudly announced a prototype camera that records images electronically and which many journalists immediately hailed as the wave of the future. This future is probably still some years off—the electronic image of Sony's Mavica has only one-quarter the clarity of a conventional camera—but steady advancements in microcircuitry could well provide electronic images competitive with optical images in less than a decade.

Kodak being so vulnerable, why doesn't it get together with Corning? Thereby hangs a sad tale. Whereas a couple of Japanese companies in the same positions would almost without thinking consider cooperation, this kind of industrial nationalism never seems to occur to Americans. As far as can be determined, Corning never approached Kodak. Kodak apparently didn't even know what Corning was up to. And so, for the Americans: licensing crumbs. For the Japanese: jobs and export earnings.

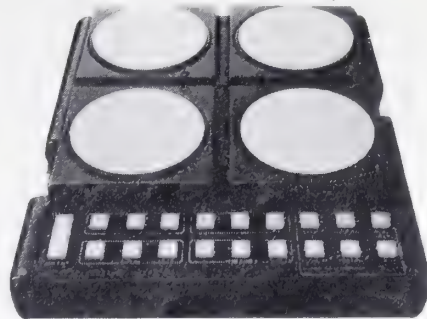
Coming: more noise pollution

Mattel Electronics, a pioneer in handheld electronic games back in 1977, has lately been taking its lumps. The company's Intellivision home video system just can't seem to compete with the more popular Atari unit, and the company has throttled back on its commitments to turn Intellivision into a full-fledged home computer system. Now Mattel is even offering rebates in order to tempt consumers who have been resistant to Intellivision's high price and limited number of cartridges.

But all that doesn't mean Mattel has lost its way. Witness the company's new Synsonics electronic drums, a portable device not much bigger than this magazine, which, with the aid of a sophisticated microcomputer, can turn a complete novice into a fair semblance of Buddy Rich. The Synsonics drum can be played

with drumsticks or with a keyboard, for those noisemakers who don't want to go to the trouble of mastering drumstick techniques. Its three programmable 16-beat memories allow a drummer to record, store and play back up to 4,000 drum combinations.

While there are other electronic drum devices on the market, none is



The new urban drums?

aimed so directly at the nonmusician market as Mattel's. "We're putting our money into department stores and electronic specialty stores, and our advertising is going to be aimed directly at the teenage male market," says Mattel spokeswoman Kathy Kennedy.

Here's bad news for people who abhor noise pollution: The same adolescents who will buy electronic drums also constitute the market for boom boxes, those huge stereo radios carried through city streets by hordes of young people. Mattel, not surprisingly, has seen the connection: Each Synsonics drum set is supplied with an interconnect cable to hook it up to speakers. "You can also hook it up to headphones and have a quiet jam session," says Wendell Johnston, the Mattel marketing vice president who heads the Synsonics effort. "But there's no doubt you're going to hear more sound at the beach next year."

At 81, Henry Reichhold is relinquishing the throne at Reichhold Chemicals. If he has any regrets, he's hiding them.

The King abdicates

By Eamonn Fingleton

WHAT WAS MISSING in the past was accountability," says C. Robert Powell, the new chief executive of ailing \$950 million (sales) Reichhold Chemicals. "Responsibility was divided on geographical rather than product lines. When things went wrong, sales blamed production and production blamed sales. There was no one to knock heads together."

That's a familiar refrain to hear from new chief executives: Blame your predecessor, make yourself look good. But it's not usually said when your predecessor's name is on the building. But then, Henry Reichhold, at 81, could afford to let his successor put a bit of blame on him for events of recent years; nobody can ever take away from Reichhold his great achievements in founding and building the company from scratch. His fault, and it is a common one: He stayed on too long.

Headhunted from Diamond Shamrock, where he worked his way up from salesman to executive vice president, the new boss, Powell, succeeded founder Reichhold last April. Reichhold, an Austrian-born chemist, got his first break in the 1920s when Henry Ford needed a quick-drying paint to speed production of Model Ts. He never believed in organization charts and ran a cheerfully dictatorial one-man show. "We used to work out a new chain of command every five years, but we would tear it up after a few weeks," Reichhold admits with a certain buccaneering charm.

The style worked when Henry Reichhold—and the company—was

younger. But in the last five years Reichhold Chemicals' return on equity in the adhesives, paints and synthetic resins business slumped to a meager 7.5%, the lowest of the major chemicals companies (FORBES, Jan. 4).

Reichhold's only role now is the vague one of "consultant." Both he and Powell are vague about the events that led to the transfer of power, but it



Reichhold Chemicals Chief Executive Bob Powell
High hopes of business from the auto industry.

is by no means clear that the old man gave up power willingly. Apparently, outside directors put the heat on him—as well as big stockholder Tele-dyne, which holds a 22% controlling block of Reichhold common.

The 54-year-old Powell could scarcely be more of a contrast to Henry Reichhold. A self-confessed organization man, he holds an M.B.A. from Rutgers University. He is as cool and collected as Henry Reichhold is expansive. But on one thing he does not mince words: "Henry wanted big

sales. Our interest now is profits."

Powell's target is an earnings-per-share growth rate of 20%, certainly not impossible from so depressed a base. To achieve that he is stepping up spending on applications research and development. Costs are coming under intense scrutiny, too. Divisions are now buying commodity chemicals on the open market more cheaply than if they were to buy them from other divisions in-house. An example is maleic anhydride, a basic building block in making polyester. Reichhold's maleic anhydride plant in Illinois has been overtaken by new technology. Rather than play costly catch up with low volume, Powell is taking a writeoff of \$1.5 million to close the plant down. He is also taking writeoffs on unused obsolete or surplus capacity elsewhere.

Powell also is on the point of selling off about \$20 million of plant. "The trend is toward oil companies' producing the big, basic chemicals," he explains. "We cannot get the necessary volume in many areas."

He sees Reichhold's becoming increasingly a chemicals job shop that will supply small runs of complex chemicals produced to customers' specifications.

Surprisingly, Powell and President Peter Fass have high hopes of new business from the auto industry, Henry Reichhold's first customers. Fass points out that plastics in cars has risen from next to nothing to more than 200 pounds per car in the last 20 years, and Reichhold thinks it has a potentially lucrative niche, particularly in a new technique for bonding plastic to metal—a hybrid material as strong as steel but considerably lighter and therefore more fuel-efficient.

Wall Street remains skeptical. Reichhold's common, depressed for years, greeted Powell's arrival with a flicker of delight, rising almost three points, to 12¾. But it has since sunk to 11 again—5 times the earnings expectation for this year and barely 40% of book value.

Once he gets earnings up, Reichhold will probably be a prime takeover candidate. A tender offer at a 40% premium over market price would cost an acquirer only \$100 million. That's cheap for nearly \$1 billion in sales and a couple hundred million in net assets. Has Bob Powell gotten the company out from under Henry Reichhold's domination only to lose control to an outsider? ■

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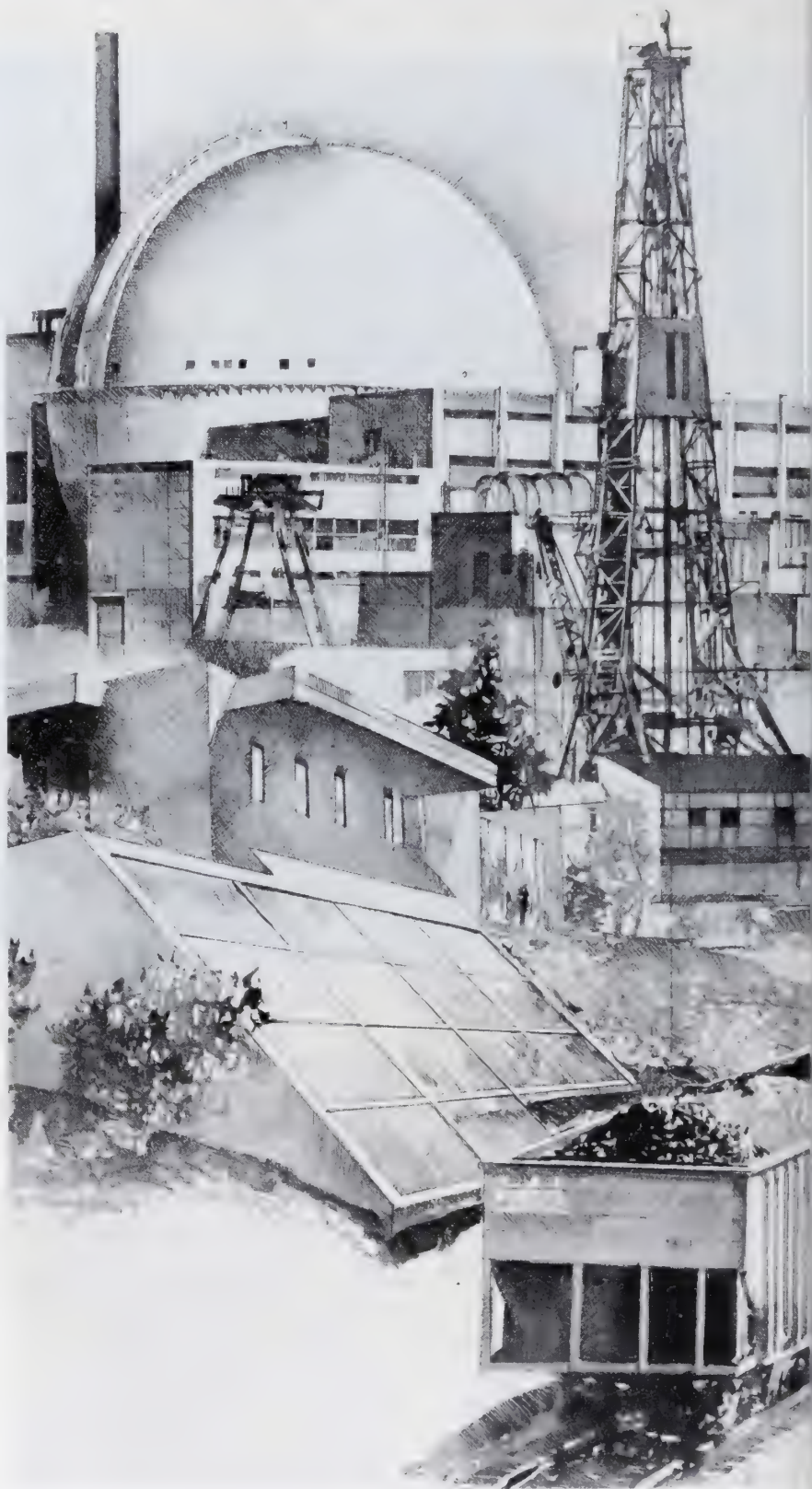
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From the client's point of view.

Faces

Behind The Figures

Edited by Barbara Ettorre

Big move

What does it take to get a man to quit the only company he has worked for all his adult life—an outfit for which he has great respect—and, in mid-career, go to work for someone else? For William Smith, it took an offer that will nearly double his salary and change his life. Smith was, until last month, an executive director at Bell Laboratories' Naperville, Ill. lab in charge of AT&T's local digital switching division—a key technology in the company's postdivestiture plans. He is now packing his movables, plus his wife and two children, in Naperville and heading for Brussels, where he will head digital switch operations in Europe for . . . ITT. Of course, ITT can use the help (*FORBES*, Aug. 30).

Will Smith, 38, broke the news to Bell Labs in early August, after being approached by a search firm and meeting with ITT executives, including Chairman Rand Araskog. Under a

three-year contract, Smith will be general technical director and a vice president of ITT-Europe, a \$10 billion subsidiary, overseeing digital switching systems in Germany, Belgium, Spain and England. His responsibilities also will include the technical development of other ITT-Europe operations in automotive brakes, consumer products and—most important—radio transmission technology.

Smith joined Bell upon graduating from the University of Maryland at age 18 with a degree in electrical engineering. He went on to take a master's degree in the same field at Princeton and a doctorate in computer science at the University of Pennsylvania.

Clearly, Smith smells big opportunities, and certainly more scope, for himself in the move. "I am administering a much larger budget at ITT—there are 20,000 people in the division, compared with 5,000 in the Bell division," Smith says. There are a number of companies in the division, he points out, and only the technical development section at ITT's scientific laboratory in England reports to him. Smith, in turn, reports to Jack Guilfoyle, president of the subsidiary.

Smith is looking forward to living abroad once again. His father was in the Foreign Service, and Smith grew up in Chile, Hong Kong, Iraq and Greece. "This was definitely a broad-

ening experience for me," he says, "and I wanted the same for my children." He will also be well compensated. His annual salary at Bell Labs was said to be close to \$100,000. At ITT his salary, bonus, cost-of-living differential and stock options will total almost double that.—B.E.

Clothes 'r' us, too

However logical, even inevitable, it seems, the fact is it took Toys 'R' Us, the nation's biggest toy supermarket chain, several years to decide to start selling children's apparel as well. "We were thinking about doing it even when the birthrate was flat in the 1970s," says Charles Lazarus, Toys 'R' Us founder and chairman. "The fact that the birthrate is going up now is a plus for us."

Lazarus sees room in the kiddie clothes marketplace for a chain of stores offering everything from play and school clothes to dress-up wear. "The largest children's stores are about 5,000 square feet," he says. "Ours will be considerably larger." (The 124 Toys 'R' Us stores in 20 states typically run about 43,000 square feet, 25,000 of it devoted to selling space.)

With 65% to 70% of his present sales (\$780 million in 1981) and "almost all" of his profits (\$49 million) coming from Christmas-toy buying in the fourth quarter, Lazarus, 58, obviously likes the idea that clothing is a less cyclical business. And the years of plotting for the move have been spent refining a plan. He won't sell teenage wear, for example, even though his stores stock stuff to amuse kids from infancy (stuffed toys and crib ornaments) through high school (computer games). He's moving cautiously: Only one or two pilot stores, located in the New York metropolitan area, will be open in time for "Back to School" in late summer 1983. "Our real estate department is looking at sites in freestanding stores or strip shopping centers near major highways," he explains. "It will be where we are a known presence. We don't want locations in shopping malls because the overhead and rent can be too high."

Lazarus says that the clothing venture will be financed internally. If so, says Bache analyst David Taylor, that will inevitably lower total profitability for a few years as the operation gets going. But Taylor thinks it makes sense anyway. By the late 1980s, he says, given the company's success in toy retailing, its clothing operation could conservatively add at least a



ITT's William Smith
Digital switch.



Charles Lazarus of Toys 'R' Us
The birthrate is a plus.

percentage point to the company's annual earnings growth rate, now running at about 30%. Lazarus agrees with the logic. After all, back in the toy business, Lazarus is still expanding. He plans to open 20 stores before the end of 1982, including its first stores in Florida.

Lazarus won't say what the name of his new apparel chain will be. Clothes 'R' Us?—B.E.

What recession?

Sales for home refrigerators have cooled 18.5% from last year, which was no bargain. No one is waiting three months for deliveries on refrigerators for their newly built or renovated kitchens. No one except customers of Sub-Zero Freezer Co., who are not only waiting but also paying almost 3 times more than purchasers of other top-of-the-line refrigerators for the privilege. "We're not well known," admits Sub-Zero President Homer Price, "but in Bel Air and Scarsdale, we're a household word."

What makes a Sub-Zero refrigerator so desirable is that it is, in effect, a custom-made "built-in." The Sub-Zero is only as deep as the base of kitchen cabinets, unlike freestanding refrigerators that protrude several inches, and that is a dreamy advantage in a dream kitchen. Customers can order decorative front panels of any material—including copper, which a Texan recently ordered etched with portraits of his family.

The most popular Sub-Zero, Price says, is the 31-cubic-foot job. It lists

for a tidy \$3,100. That's far larger—and much more expensive—than the most popular freestanding units that measure 16 or 18 cubic feet and list for around \$1,000. Why do Sub-Zero customers need so much space? "You're talking about people who have 50 guests at a time for a sit-down dinner," explains Price.

Price, 57, spent 19 years at St. Charles Kitchens, the well-known custom kitchen design company, leaving as director of marketing before joining Madison, Wis.-based Sub-Zero (privately owned by the Bakke family) in 1972. Under Price, in ten

years Sub-Zero's revenues have come out of the deep-freeze, heating up from \$2.5 million to an estimated \$35 million this year, with unit volume having averaged 20% growth a year for the past eight years.

Sub-Zero's Madison plant turns out 120 refrigerators a day, and, to cut down customer waiting time, the company opened a plant in Phoenix last October. The biggest market for Sub-Zero refrigerators, Price points out, is southern California, which accounts for 12% of volume; he can save up to \$50 per refrigerator shipping to the West Coast from Phoenix rather than from Madison.

Price says he expects major appliance manufacturers—his competitors—will come out with their own built-in models "some day." For now, he isn't worried. After all, Bob Hope has several Sub-Zeros; Richard Nixon has one; and Pierre Franey, the chef and author, recommends the product. What's more, Price glows, "There are hundreds of Sub-Zeros ordered for new condos on Wilshire Boulevard alone."—Bess Gallanis

Taking the high road

The battle for the \$3 billion personal computer market is heating up at the retailers' shelves. Low-end makers like Atari, Commodore and Texas Instruments are slashing their prices. And, in July, Tandy Corp., in an unprecedented move, announced plans to sell its Color Computer (price tag \$399) outside its 6,000 Radio Shack stores, possibly to such mass mer-



Sub-Zero's Homer Price

"In Bel Air and Scarsdale, we're a household word."

chandisers as K mart and J.C. Penney.

Edward Faber, president of ComputerLand, who has long been the king of computer retailing, says he is losing no sleep over these moves against his market share. His 297 franchised stores are part of a select group selling the new IBM personal computer, which has turned out to be the hottest small computer since the Apple II was introduced in 1977. "There's no question that the IBM has enhanced our business," says Faber. Remember, a fully outfitted IBM sells for around \$5,000—not the several hundred dollars an Atari or a TI sells for, which means hefty margins for the retailer. Nor is IBM likely to go the K mart route, given its demands for service and customer support. "Many of our stores have dropped products from their lines simply because those computers can be bought down the street

VisiCalc. Faber likens these "satellites" to record stores, which are themselves beginning to compete with ComputerLand by carrying video games. In June, Faber formed a joint venture with a Japanese electronics trading company to open a chain of ComputerLands in Japan stocking mostly Japanese-made goods.

"My job," says Faber, "is not to screw around with the fundamentals that made us successful. But we can't just keep going down the same path because it worked before." One fundamental Faber has enforced so far is not permitting computer makers to dictate how he does business. Last spring, when Apple demanded the right to determine which ComputerLand franchisees could sell Apples, Faber said, "Nuts." Individual stores can now deal with Apple directly, although Faber still collects an 8% roy-

Faces Behind the Figures

tel, his wife, his three children, his father, his mother and his father-in-law own almost 30% of the fund. In the year ended June 30, the first year of its operation, it was one of the best-performing open-end investment companies around, according to Lipper Analytical.

The record was so good, in fact, that the exuberant president felt the family thing to do was to hold the fund's annual meeting poolside in the yard of his Greenwich, Conn. home. About 160 people—shareholders, spouses and friends—from as far away as Canada, Nevada and California ate barbecued filet mignon, chicken marengo and lemon mousse with strawberry sauce at what proved to be a kind of investors' love-in.

The results were certainly attractive enough to moon over. They were a testament to Gintel's nondiversification strategy of putting his money in a comparatively narrow number of stocks. Fortunately, in the past year, several of his biggest positions all clicked at the same time. Net asset value per share was up 16.3% in a period when the Dow industrials were off 13.2%—a performance almost as hot as the explosive chili that one stockholder concocted for the picnic. "It is family stuff," says Gintel, 54. "We try to keep everything on a personalized basis." (He estimated that the shindig cost him about \$7,000—tax deductible, of course.)

Gintel aims to keep things personalized. Most of the early investors in the fund were clients whose accounts he had been handling through three limited partnerships in a relationship in some cases dating to the Sixties. To get into the new fund during the first six months, shareholders had to pony up a minimum investment of \$25,000. The cost of entry thereafter went to where it is now—a plump \$100,000. To maintain the air of friendly exclusivity, Gintel says he will turn off all new purchases when (and if) the fund's assets reach \$150 million. "I don't want us to get too big because I don't want our family assets mixed into something where you lose flexibility," he says.

Gintel says the fund is growing so rapidly—there are close to 400 inves-



Edward Faber of ComputerLand

"My job is not to screw around with the fundamentals."

at K mart," says Faber.

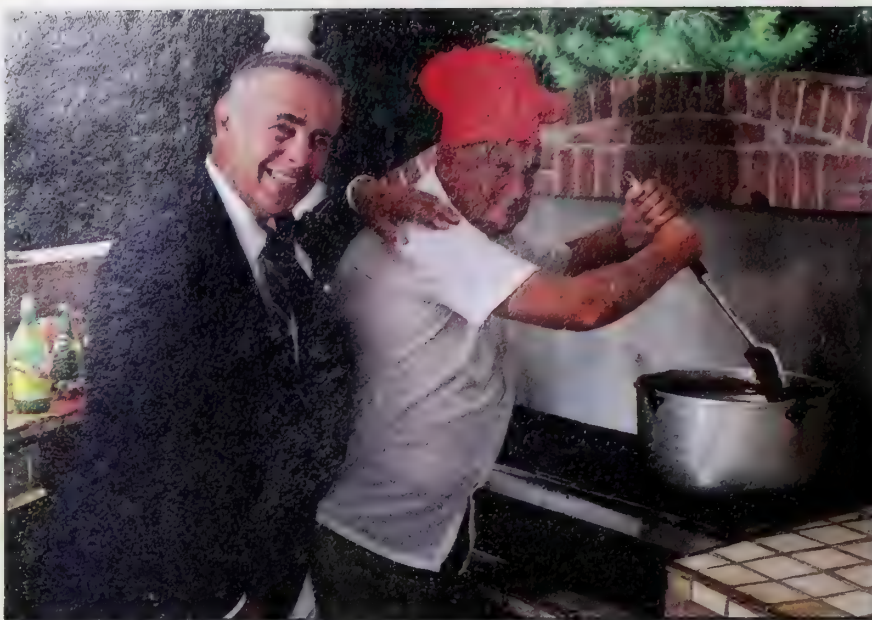
Faber, 49, spent 12 years in marketing at IBM, followed by brief stints at Memorex and Four Phase Systems, before taking over ComputerLand's franchising operations in 1976. Since then, the privately owned outfit has grown into the largest of the specialized computer retail chains, handling products from roughly 120 manufacturers. Its stores this year had gross sales estimated at \$400 million, up from \$151 million in 1981.

But Faber is not counting only on IBM to keep Hayward, Calif.-based ComputerLand ahead of the pack. In May he began opening a chain of separate software stores primarily to sell such popular software as games and

alty on his stores' gross sales—including sales of Apples. Apple declines to make sales projections since the new agreement went into effect in July, but says it is encouraging individual stores to carry its computers. And Faber, for his part, has no regrets either. "We feel we have two computers," he says, "both with strong market appeal."—Kathleen K. Wiegner

All in the family

When Robert Gintel, the president of the \$45 million (assets) Gintel Fund, speaks of his stockholders as "family," he is not just turning on the old public relations charm. To a large extent his stockholders are family. Gin-



Gintel Fund's Robert Gintel and stockholder Roudi Pock
A performance almost as hot as the chili.

tors to date—that he is beginning to worry about whether he'll be able to hold next year's annual meeting at his house. "I'm not sure we can ever have that kind of meeting again," he says. "If everybody showed up, my wife would have a fit."—Richard Phalon

I.Q. City

Without the need to buy uniforms for cheerleaders, to say nothing of financing a whole football team, the Institute for Advanced Study in Princeton, N.J. would seem to be relatively insulated from the money troubles afflicting most schools and colleges. One of the most prestigious institutes of pure research in the country, it depends on grants from the government for only 25% of its annual operating budget (\$10 million this year)—compared with some university-affiliated institutions that get as much as 90% from federal funds. Its endowment portfolio—some of it invested in young, high-tech stocks—produced a healthy 19.5% rate of return in 1981. Furthermore, in the six years since Dr. Harry Woolf came from Johns Hopkins University (where he was provost) to become director of the institute, the endowment itself has grown from \$50 million to \$98 million. Over the last three to four years the institute's investments have averaged 11% to 12% per year.

Nevertheless, Woolf is worried. For one thing the federal grants—although a relatively small portion of the budget—are likely to be cut somewhat in 1983. For another thing, he sees to the care and feeding of 170

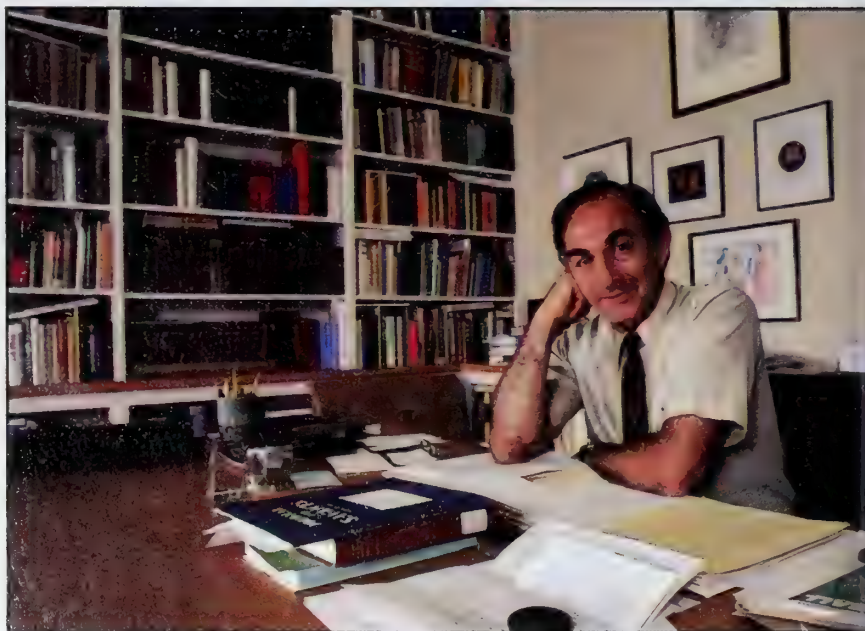
institute members who usually visit for a year at salaries often matching their university ones. (The federal grants contribute heavily to these salaries.) He also oversees 24 permanent faculty members who have appointments until age 70 at salaries, paid through the endowment, averaging more than \$50,000 a year.

So, to get more money coming in, Woolf is getting the Institute for Advanced Study into the housing development business. "We will do in housing what we do in the life of the mind," he says, grandly. He has been working for three years to persuade

Faces Behind the Figures

Princeton Township to permit the institute to develop a portion of its 800 prime acres. (The institute has no formal connection with Princeton University.) The land, mostly forest, open meadow and farmland, is said to be worth about \$50,000 an acre—that's about \$40 million. Woolf's plan calls for development of 200 acres of the total into "state-of-the-art" cluster housing, with thick walls for insulation, passive solar heating and other environmentally sound amenities. Woolf is in the process of selecting a developer to take charge of the project. "We want to find a management responsive to our values," he says. "We want to set up a legal and selling structure to insure standards of quality." Construction should start, he says, within the next two years.

Woolf won't say how much money he expects the development to produce for the institute. But he already knows where the bulk of it will be allocated—into the pursuit of basic research. "Institutions like ours have lots of sleeping assets they should be looking at," he says. "There are land, air space and certain technological connections. You have to start using these assets."—Leslie Aldridge Westoff



Harry Woolf of the Institute for Advanced Study

"We will do in housing what we do in the life of the mind."



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With today's equipment and training, much of the risk has gone from scuba diving. But all of the fun remains.

Taking the plunge

Personal Affairs

Edited by William G. Flanagan

AS THE BOAT PULLS away from the beach and rounds Lyford Cay, Stephen O'Connor, a municipal bond specialist with Goldman, Sachs, wonders if it will be better in the Bahamas. The diving, that is.

But on the foredeck of the specially equipped dive boat, cowering on the shady side of the wheelhouse to avoid the strong midmorning sun, Maureen O'Connor, Steve's wife and also a Goldman, Sachs executive, harbors different thoughts. Can she go through with it? She has just completed a whirlwind, five-lesson "executive" diving program. Prior to the course, which she had taken over the space of a week and a half at the Downtown Athletic Club in New York, she had fears of even putting her face below the surface. She didn't know an air regulator from a blood pressure gauge. Now she is supposed to plunge into the open sea off Nassau to a depth of 35 feet. She shivers, despite the 90-degree temperature, and thinks of how she talked herself into diving in the first place. She thinks of how disappointed Steve will be if she chickens out. She recalls his words of only a few moments before: "If you don't want to do it, then don't do it. This is supposed to be fun—not a rite of passage."

Thirty minutes later, still all too soon for Maureen, the boat's engines stop and a dozen divers strap on their scuba tanks.

"There's a ledge down there that drops off sharply," one of the dive-masters tells the group. "It's spectacular. There should be some good-size

fish and very interesting coral formations. Maybe we'll be lucky and see some sharks or big rays."

Maureen zips up her wet suit and walks to the boat's stern. All the other divers, save one instructor, have already entered the water and are about to slide beneath the surface. Her heart pounds as she thinks of how simple it would be to back out. All she has to do is tell the instructor she isn't ready yet. Husband Steve, already in the water, looks up expectantly.

As a sport, scuba diving has been around since shortly after World War II, when Self-Contained Underwater Breathing Apparatus was first perfected, mainly by the likes of Jacques Cousteau and company. It has grown steadily, and there are some 2.4 million recreational divers in the U.S. today. Another 60,000 become "certified" each year. (Early on in the sport there was an alarming fatality rate, so the fledgling industry established for-

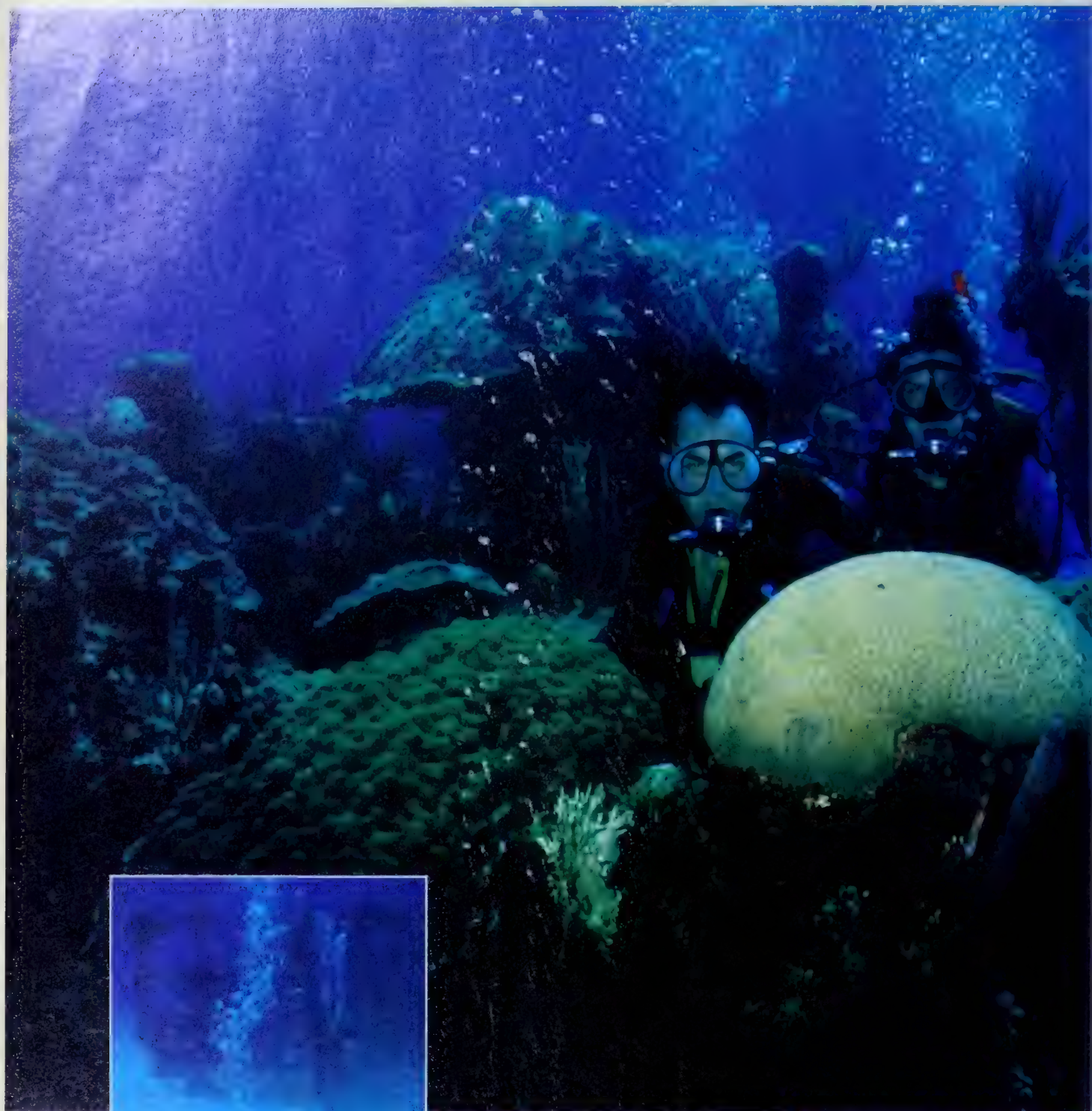


C.K. Stewart assists Stephen O'Connor

Scuba training, about 30 hours' worth, is split between classroom and pool. Students breathe underwater at the very first lesson.







Steve and Maureen on ocean floor



Maureen touches brain coral

Two open-water dives are needed to complete the process of certification. Nervous at first (right), Maureen relaxes and completes final requirements with divemaster (left), then gets around to enjoying her initial dive. She touches brain coral (above) for the first time. There is more than enough time to explore the sea floor and the Thunderball wreck before resurfacing.



Stewart and the O'Connors descend

Personal Affairs

malized training procedures leading to certification, roughly akin to licensing. Without a "C" card a diver cannot even have his tanks filled with air at a dive shop.)

Diving is still potentially dangerous. You won't break a leg if you are extremely careless; you'll kill yourself. (There were 102 deaths of recreational divers last year.) But equipment has been greatly improved and a lot has been learned about the psychology of teaching the sport so that new divers are far less likely to panic. Panic, or course, is the biggest enemy divers have. Virtually anything that happens underwater is survivable if the diver keeps his wits.

Now, the sport attracts more enthusiasts than the macho type who wants to strap a knife on his leg and probe deep wrecks in cold, murky water. There are accountants and bond specialists like Steve O'Connor, and even 12-year-old children who have

lesson a week, some dive shops offer special "executive" courses and private lessons to accommodate the busy executive.

Diving courses are offered through local dive shops, many colleges and the YMCA. Most shops are affiliated with one or more of the following organizations: National Association of Scuba Diving Schools; National Association of Underwater Instructors; Professional Association of Diving Instructors; and Scuba Schools International. In addition, "resort" courses are taught at many popular diving locations to give newcomers a taste of diving.

A typical course leading to certification might run up to 30 hours, include two open-water dives and cost anywhere from \$100 to \$300, depending upon whether you rent or buy equipment.

The compleat scuba diver can spend thousands on dive gear, but the basics—mask, fins and snorkel—cost about \$125. A good buoyancy vest, regulator and wet suit will run another \$400 to \$1,000. Most divers rent their air tanks, weight belts and backpacks. Cost: maybe \$35 a day.

Physically, diving is not normally trying, despite the weight and bulk of the equipment. You need only slip off the back or over the side of a boat, or



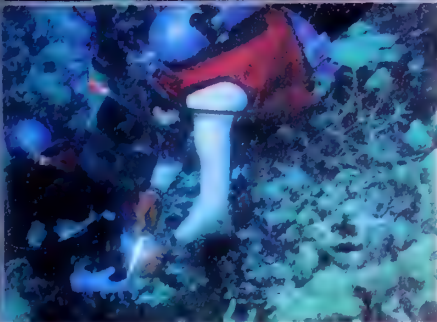
The O'Connors emerge

logged many hours underwater—usually in calm, bathtub-warm and crystal-clear waters.

There are five U.S. organizations that teach diving, and all are continually improving teaching techniques and employing newer, safer equipment. It is far less strenuous to become certified today than it was just five years ago. It is also less time-consuming. While courses can still run as long as eight weeks, with one

perhaps waddle a few feet into the surf. Once in the water, you are weightless. You must know how to swim, of course. And if you have any ear or sinus problems, you may not be able to "clear"—that is, equalize the air pressure as you descend. Otherwise, anyone who is reasonably fit should be able to become certified.

Maureen O'Connor takes the plunge, after all. With divemaster C.K. Stewart (a former advertising executive) shepherding her, and hus-



Divers dissect a sea urchin



Mercedes-Benz resale performance has made history. And history does have a way of repeating itself.

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more select few have even been shown to actually appreciate in value over time.

Obviously, the shrewdest purchase is the car that shows promise of defying the law of economics as long and as long as possible. And knowing this, automobile makers today are hastening to reassure you about the historic resale performance of their cars.

One tactic is to cite the resale performance of the maker's most popular models from their best years—selecting, in a statistical process as delicate as picking a dozen perfect eggs, only the exceptional resale

stories. And discarding the rest.

Mercedes-Benz could exploit this tactic to tell an astonishing story of resale performance.

The 1955 300 SL "Gullwing" Coupe, for example—worth

American buyer a dazzling spectrum of automobiles to choose from—gasoline and diesel and turbodiesel models, sedan and coupe and station wagon and roadster body

types; eight models all told. And consider that, as a whole, this current range of Mercedes-Benz models has been shown to retain at least 80 percent of original value after the first three years.

Remarkably uniform resale performance: that is the recent history of Mercedes-Benz automobiles. If you are contemplating the purchase of a new car, it is worthwhile to bear this history in mind.

Because history, after all, does have a way of repeating itself.



1982 300 SD Turbodiesel Sedan. Will resale history repeat itself?

\$6,820 new and today worth up to \$106,000. The 1967 250 SL Roadster, priced when new at \$6,485 and today at \$16,000. Or the 280 SE 3.5 Convertible of 1971, which in ten years climbed from an original value of \$14,000 to around \$50,000—if one can be found for sale.

But the Mercedes-Benz resale achievement goes beyond a few such hand-picked rarities. It is more than this particular model or that specific series that has been shown to age so slowly, to almost defy the law of economics. Consider that Mercedes-Benz offers the

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Personal Affairs

band Steve a few feet away, she gradually begins her first open-water descent. Slowly letting air out of her buoyancy compensator and clearing her ears every 15 feet or so (by holding her nose and forcing air through the Eustachian tubes), Maureen soon finds her fins flicking the sandy bottom 35 feet below. Marine life is everywhere. Spade-shaped angelfish, rainbow-colored parrotfish. Yellow-tail snapper. Elkhorn and brain coral. Sea anemones. Gliding over the bottom toward the ledge, Stewart points out a six-foot stingray cruising by.

All too soon, getting down to 500 pounds of air, C.K. signals it's time to return to the boat. They have been under 30 minutes.

Back aboard, Maureen is congratulated. She eagerly awaits her next dive, which will be to the remnants of the rig built by moviemakers filming *Thunderball*. Before the boat reaches the South Ocean Beach Hotel, with two dives under her weight belt, Maureen and Steve agree on another dive trip later in the year. She's hooked.—W.G.F.

Gray's elegy

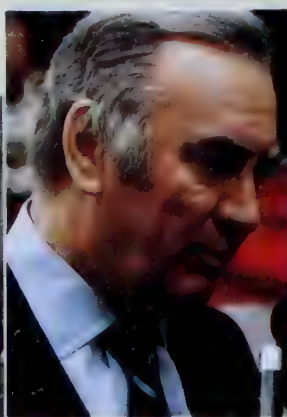
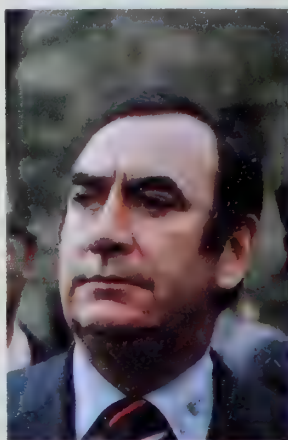
Ronald Reagan claims he doesn't—and only his hairdresser knows for sure—but thousands of American men are indeed dyeing their hair these days. Businessmen, wanting to look youthful, are covering the gray; young executives, hoping to be taken more seriously, are streaking their temples white; and desk-bound workaholics are adding blond highlights so it seems that they, too, are spending weekends at the beach.

Naturally, most men don't like discussing such things. When silver-haired New York Governor Hugh Carey emerged as a redhead last year (just in time for his wedding), he wouldn't even talk to his staff about the startling change. But there's no doubt that as long as women like Evangeline Carey want their men to look younger, hair dyeing will be a growth industry. "My men's coloring business has grown at least 35% in the last two years," claims Dusty Fleming, owner of a Beverly Hills salon known for its celebrity clientele.

How to eliminate some or all of that telltale gray? There are at least

four commercial elixirs, easily found at the corner drugstore, that do the trick. Grecian Formula, manufactured by privately owned Combe, Inc., is the market leader, followed by Clairol's Great Day. According to Combe President Chapin Nolen, his product sales have increased eightfold in the past decade, to an estimated \$14 million in fiscal 1981.

For under \$5, a man can take years off his life in the privacy of his own bathroom. Unfortunately, these store-bought potions, dabbed in like Brylcreem, do not penetrate the hair fiber but merely coat the surface. That means they tend to wash out after a few weeks—one way the companies hook you into buying bottle after bottle. Worse,



Governor Hugh Carey
**Changing hues:
black to gray to red.**



some of these products have been known to discolor, giving your head a greenish hue.

It's probably wisest to go all the way and have your hair dyed professionally. An expert colorist will actually weave in pigment, strand by strand, leaving some hair white and thus creating a more natural look. This streaking process is relatively cheap, typically \$50 to \$65 the first time out, and you will need only a touch-up every three months or so. Note: A barber probably won't even know you have dyed your hair if it has been done properly. (If you change the color on your entire head, the procedure is much less expensive—about \$30—but you will need a touch-up every four weeks.)

The entire process takes about 90 minutes. Using a brush, the colorist paints a few strands at a time, then wraps these in tin foil. The dye, which has a powerful odor, is left on for 20 minutes, then your hair is washed and conditioned. Presto! Instead of Tip O'Neill you are Ted Kennedy.

Where to get the job done? Men's hair is the same as women's, and many women have a lot of experience

with colorists. So one easy way to find a reputable salon is simply by asking your wife or any well-groomed female. Although your initial moments inside the shop are bound to be unnerving, don't be intimidated. For one thing, most salons are now unisex operations. Besides, the coloring department is usually segregated from the rest of the shop. (If one of your poker buddies comes in and starts laughing, relax. He's there for the same reason.)

Some of the recommended salons in New York—where the atmosphere isn't fussy and the colorists are used to working with men: La Coupe (694 Madison Ave., 212-371-9230), Clive Summers (645 Fifth Ave. in the Olympic Tower,

212-751-7501) and Vidal Sassoon (767 Fifth Ave., 212-535-9200). Sassoon, in fact, has a string of shops across the country. For those squeamish about being spotted by the boss' wife, try Jerry's Barber Salon in Bergdorf Goodman (1 W. 57th St., 212-688-3811).

Elsewhere around the country, consider either Howard Alberts (840 N. Michigan Ave., 312-943-2098) or Lanzendorf/Blankenship (65 E. Oak St., 312-951-5292) in Chicago; Dusty Fleming (275 N. Canon Dr., 213-273-5313) or Allen Edwards (455 N. Rodeo Dr., 213-274-8575) in Beverly Hills; Reginald's of London (1801 K St., 202-466-2233) or Hair Inc. of Capitol Hill (325 Seventh St. SE, 202-546-5110) in Washington, D.C.; or Norris of Houston (2021 S. Post Oak Rd., 713-627-0000). Like Jerry's in New York, Norris caters to men.

A final word of caution about hair dye. It is a chemical solution that damages hair. Nothing serious, really, it just expands the fiber, which causes drying. Then again, some hair experts recommend color for people with particularly fine hair, as it makes the texture fuller.—William Harris

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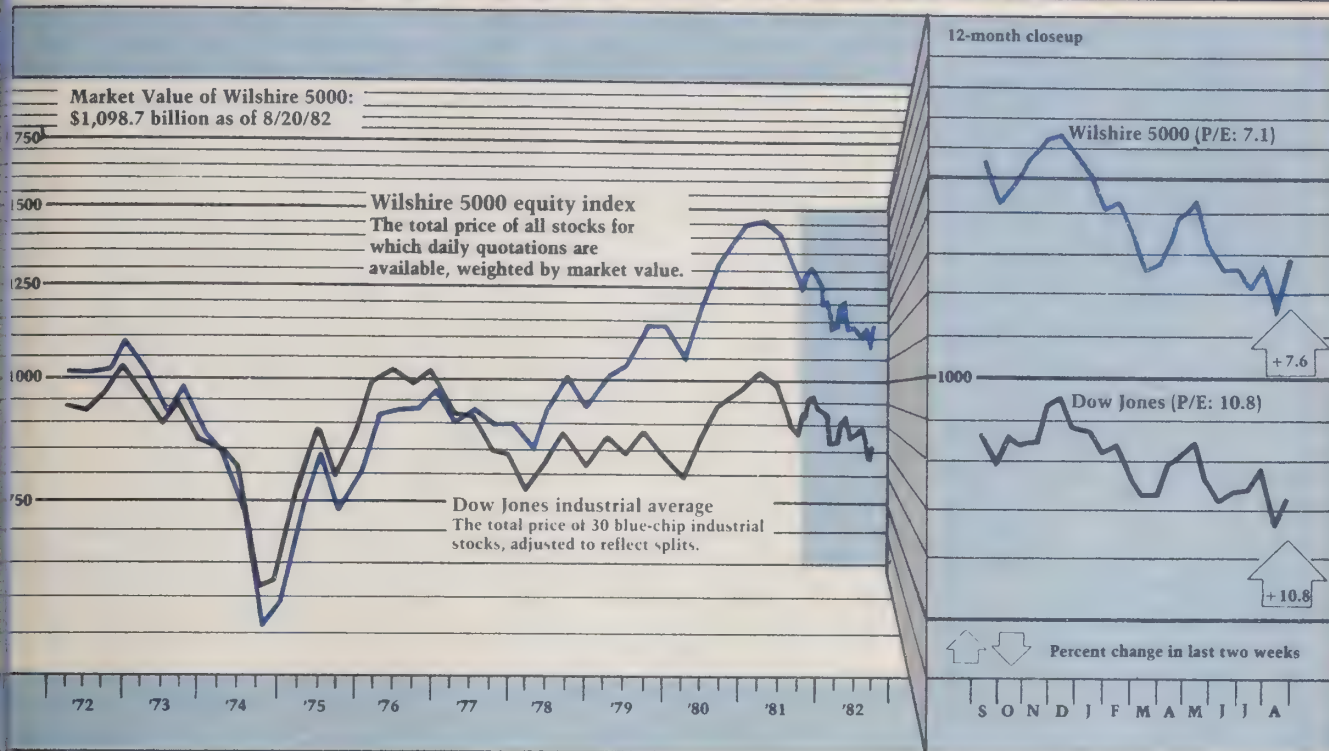


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The Forbes/Wilshire 5000 Review



The real thing? So far this has been primarily an institutional rally, and the institutions have been buying big blocks of shares in big companies. Every major market indicator index has turned up. Buyers were grabbing whatever was closest at hand—namely blue chips. And they were playing stock-index futures.

This was a market for McDonald's (up nearly \$8 a share in one week), General Motors (up \$6.50) and IBM (up over \$5). The Dow led the averages up, while broader indexes like the FORBES 500, listed here for the first time, and the

NYSE climbed a little more slowly. The Wilshire, meanwhile, showed the drag of smaller issues—the same trend that kept the Amex and o-t-c well behind the Dow.

In this sense the mid-August 1982 rally has the earmarks of a true turnaround. The Dow and the institutions are leading—as they did in 1975. Gradually, then, over the following years, the smaller issues on the smaller exchanges caught up and eventually moved ahead. Now, watch what happens to them over the next few weeks to see if the similarity continues.

Close-up On The Equity Markets

Percent change	Wilshire 5000	Forbes 500 ¹	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	0.8	1.9	4.7	1.3	-0.5	-3.0
in last 52 weeks	-16.0	NA	-5.6	-13.9	-29.9	-19.2

Percent change	Volatility ²		P/E multiple		Dividend yield		Growth profile ³		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	-3.4	2.2	-3.8	-0.8	2.8	-1.4	-4.0	1.9	-1.4	-1.3
in last 52 weeks	-15.8	2.8	-26.8	-2.1	2.2	-6.7	-14.8	-1.6	-15.6	-14.3

¹Based on sales.

²A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.

³A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

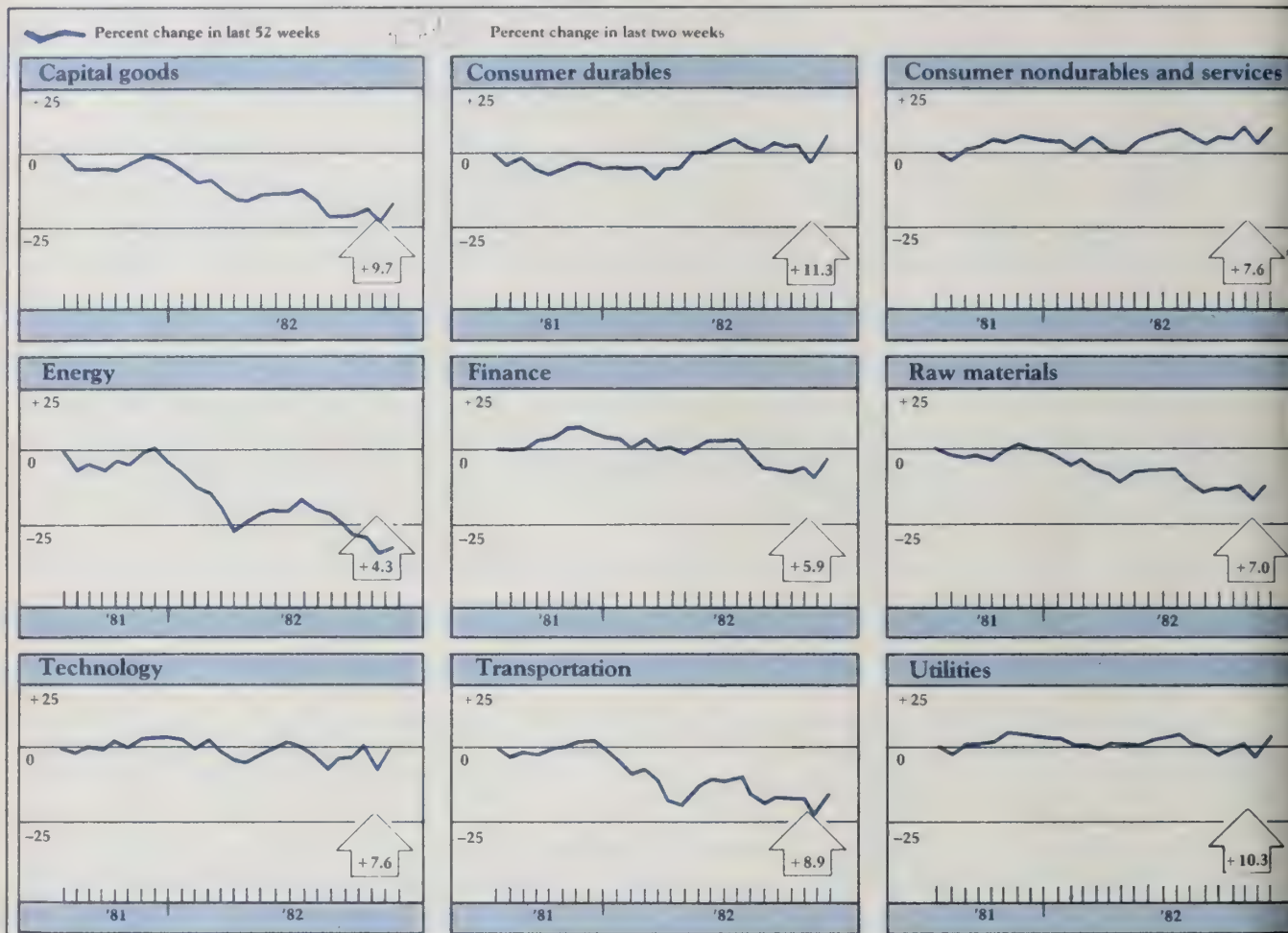
Note: All data for periods ending 8/20/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Nary a loser. The only unfortunates in this market were the short-sellers, who pushed prices up even more as they raced to protect their positions. The biggest runup came in consumer durables as investors decided Americans would be ready again to buy such items as autos, household appliances and outboard motors. Utility stocks, which have held strong through the 1982 bear market, bounced

up as well. With interest rates tumbling, their 10%-to-12% yields continue to look good.

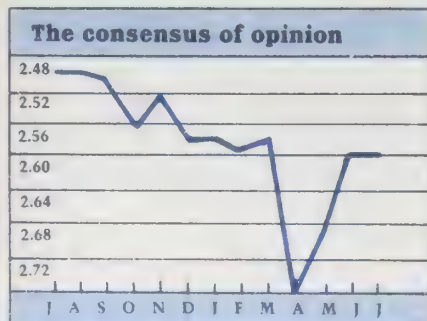
Raw materials also showed an uncharacteristic strength, partly as the threat to the Mexican peso sent a wave of investors into gold and silver and related stocks. At the moment, though, raw materials are lowest on the list of buy recommendations ranked below.



What The Analysts Think

They knew it was coming. Collectively, analysts turned optimistic about the market in April. But their enthusiasm leveled off later in the summer. As for industry

groups, utilities and technology are current favorites. Note, too, that energy is moving up fast but raw materials remain decidedly out of style.



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Utilities	2.36	3	1
2	Technology	2.40	1	3
3	Capital goods	2.49	2	9
4	Energy	2.53	7	7
5	Finance	2.65	4	5
6	Transportation	2.67	5	4
7	Consumer nondurable	2.69	8	5
8	Consumer durables	2.70	6	7
9	Raw materials	2.75	9	2

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite

rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 8/20/82. Prepared by Wilshire Associates, Santa Monica, Calif.

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"I'm a nervous investor," says Charter Fund's Julian Lerner. Still, he has outperformed many with more derring-do.

The better part of valor

By Toni Mack

JULIAN LERNER, MANAGER OF Dallas-based Charter Fund, is something of a hand-wringer among money managers. "I never in my wildest dreams anticipated we'd have \$120 million under management," he says. "I wake up in the middle of the night thinking: My God, what am I going to do?"

What he has done so far is impressive. Lerner's \$46 million Charter Fund has an average 18% annual return for the last 12 years. That's better than twice the S&P's 500 performance, and good enough for five appearances on the honor roll of *FORBES'* Annual Mutual Funds Survey (Aug. 30). He also manages private accounts worth \$73 million, invested much the same way—which is to say, warily.

Lerner, 57, is a fellow so skittish he can't even bring himself to push the "print" button on his computer (his secretary obliges) and so leery of his own judgment that his research consists mainly of reading analysts' reports. His strategy, in fact, is more marked by what he doesn't do than by what he does. Lerner avoids almost everything off the Big Board, for fear that he won't be able to extricate himself from a thinly traded stock. He also shuns bargain-picking, because he wants no anxious waits for a turnaround.

Instead, he prefers proof of an up-

swing, in the form of accelerating growth in revenues and earnings. Then he looks for reasons the acceleration might continue—all of them investment clichés like dominant market share, proprietary products and good financial condition. Finding the cream of the market is not unusual or even very hard; Lerner counts on enough investors belatedly finding



Julian Lerner, manager of the Charter Fund

Hopping on the bandwagon after it pulls away.

the cream to push the stock up.

In short, Lerner likes to jump on the bandwagon after it has already started to pull away. His portfolio is studded with institutional favorites like General Electric, Baxter Travenol, General Mills, IBM and McDonald's. Still, picking a stock already on the rise doesn't always mean missing big run-ups. Lerner began buying General Cinema at 22¾ in November 1980, eight months and 6¾ points after the stock had started to climb. At a

recent 45, it's still a big winner. Crowd-following, however, is expensive. Most of Lerner's stocks carry a P/E of 10 or more, a couple as high as 19. Crowds are quick jilters, too, so he has to trade away from the losers in a hurry. When a stock has dropped about 20% from its high since he bought in, Lerner usually sells. That brings a portfolio turnover rate of close to 100% annually.

Now, 63% of the Charter Fund is in the money market. Lerner went heavily into cash two years ago. Two years ago, "I am a child of the Depression, and it made me very, very gun-shy," he says. "I've got about 15 books up there," pointing to a bookshelf in the corner. "About a third of them have to do with the Depression and hard times. Another third have to do with con artists. The rest are about Texas football."

The University of Texas, that is, Lerner got his law degree there, and today UT memorabilia fill a room at his house. He wasn't a very good lawyer, Lerner confesses, but he got acquainted with the mutual fund business when he served as counsel for a fund. He did his own lawyering to set up the Charter Fund in 1968 and did it until this year, even though the fund and the private accounts—of whose management he is sole owner—earned him around \$500,000 last year.

Today Lerner's portfolio is predictably heavy in recession-resisters like Rubbermaid and Wal-Mart. He is especially taken with drugmakers that have strong market positions. Novo Industri A/S, for example, is a Danish company that supplies about 50% of the world's industrial enzymes and about 25% of its insulin. Lerner began buying in a year ago at 31; the stock is now around 43. A few successes like that have kept the Charter Fund of late from sinking as deep as the market—9%, excluding dividends, vs. the *FORBES* stock fund composite's 15.5%.

In essence Lerner's strategy is a matter of knowing when to get on or off the bandwagon and when to use another method of transportation entirely. It has little to do with the fundamental soundness of the bandwagon itself and nothing to do with the extensive research and profound patience counseled by Ben Graham. It's a testament to Lerner's nervousness that he has done as well as he has. ■

Sears is trading at a premium over the market. Why so? Good question.

The great Sears, Roebuck Fan Club

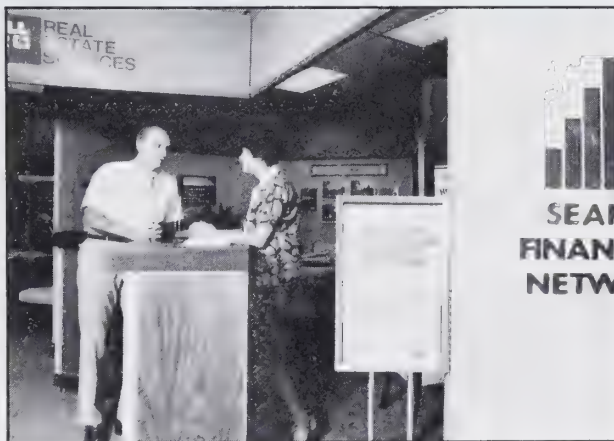
By Richard Phalon

WHEN SEARS, ROEBUCK in quick succession last winter bought up the Coldwell Banker real estate group and the brokerage firm of Dean Witter Reynolds for over \$800 million, the hosannas on Wall Street were predictable. Sears announced that its goal was to become the U.S.' "largest consumer-oriented financial services entity." "Awesome potential," intoned one analyst. "Unparalleled," pronounced another. *FORBES* was more skeptical. "Is this costly quest to build 'financial department' stores just another corporate fad?" we asked at the time.

In the nine months since then, there has been a brisk runup in Sears common. At 10 times earnings and a leader in last month's market turnaround, the stock has been trading at a substantial premium over the averages. Good going, indeed, in a generally soggy market. Yet nearly every segment of Sears' business is under pressure, including a retailing arm that accounts for almost 1% of the GNP. Sears' savings and loan outlets are hurting as badly as any in the trade. Allstate Insurance, which in palmier times often offset any cyclical softening on the retail side, is running deep underwriting losses.

So, why the premium multiple? In a word, leverage—leverage that the definite move in the economy to lower interest rates can exert on Sears' overall profitability.

Because Sears relies so heavily on debt to finance receivables, Dan Barry of Kidder, Peabody figures that the drop of one percentage point in short rates would enable the company to bring an additional 7 cents a share down to net. There would also be marked impact on the company's own internal credit operations. The spread between the rates at which it



Sears' new financial department
"Just another corporate fad?"

has been borrowing and relending to customers is negative to the point where Sears has been losing money.

On the evidence of the last couple of weeks, the bulls argue that the lines are about to cross in a positive direction. Their hope rests on a Sears report for the six months ended June 30, which showed the deficit in the credit department had narrowed from \$35.8 million to \$7.2 million. That swing—mainly the effect of lower rates—was one of the reasons the Sears merchandise group as a whole, nearly two-thirds of revenues, moved

solidly into the black. Clearly, lower interest rates would benefit other segments of the business, too, especially the savings and loan side. "It's a very strong interest-rate play right now," says Dan Barry.

Long range, however, prospects are less clear. Much hinges on continuing improvement in the way Sears runs its department stores. Many analysts give Sears CEO Edward R. Telling high marks for cutting costs, restructuring the company and pushing into early retirement a generation of old-line managers. Sears' profits, though, 67 cents per share for the first six months, are still a long way from the peak \$2.86 a share earned in 1978. Sears has been losing market share to more aggressive discount and specialty chains, and the still unanswered question is whether there is any real growth left on the retail side. Other unanswered questions involve the quality of the company's earnings, the odds against any real turnaround soon in Allstate's underwriting losses and the quality of the management judgment that paid such high prices to acquire Coldwell Banker and Dean Witter.

Take Allstate Insurance. "The biggest positive argument that one can make for Sears is if you could envision a year where both Allstate and merchandising did well simultaneously," says retail analyst David Taylor of Bache Halsey. At the moment that looks like a forlorn hope. Allstate's combined ratio—claims losses and expenses against premiums—is a little better than the industry's, but not so much better as to give Sears any real protection from an endemic of rising expenses and lagging premium increases.

Further, most analysts echo Dan Barry's contention that Sears cannot expect too much help from Coldwell Banker or Dean Witter in the very near future. "The verdict on the Sears move into the financial services industry is way far off, as is the eventual payoff," says Barry. Dean Witter is currently in the red. The two acquisitions were so costly they boosted debt last year from 27.1% to 37.5% of capitalization.

Clearly, a lot of people think Sears stock is a good bet, hence the premium multiple these days. But for the moment, at least, the premium seems to rest more on falling short-term interest rates than demonstrated firepower. ■

Statistical Spotlight

The companies in this table are fast-growing and profitable, but they aren't sending out fat quarterly dividend checks.

Corporate skinflints

By Steve Kichen

MOST OF THE 30 companies in the table below pay out none of their profits to shareholders. These managements would rather keep money in the business, reinvest and build up earnings per share or book value. Why such parsimony? If

the strategy works it can pay off handsomely. Shareholders take profits through capital gains generated by selling higher-priced stock—and the taxman gets far less than he does at dividend time.

To generate our list we screened New York Stock Exchange companies to find those with no dividends at all

or token payments of less than 10% of earnings. We then demanded a return on equity of greater than 9.9%, a five-year earnings growth rate of 8% or better, a debt/equity ratio of less than or equal to 70% and current earnings per share of at least \$1.

The group falls into two loose categories. First, there are companies run by chief executives who don't think paying fat dividends is good policy—men like Howard Newman at Western Pacific, Tom Murphy at Capital Cities Communications and Henry Singleton at Teledyne. Then there are high-growth outfits that want every nickel to finance investment programs. Examples include Digital Equipment and Rowan Cos.

Another common thread among these corporate skinflints is a high level of stock ownership by insiders. Companies like Hewlett-Packard and Superior Oil, for example, are largely controlled by founding families with no immediate need for quarterly spending money. They prefer the benefits of long-term stock appreciation.

If you're in a similar situation, the companies on this list are prime investment possibilities—especially since many are at their lows.

Coupon clippers, look elsewhere

Company/business	Recent price	52-week price range	—Latest 12-month— EPS	P/E	Payout ratio	Debt/ equity ratio	Return on equity	5-year earnings growth
Applied Magnetics/computer equip	13 ³ / ₄	23 – 10 ³ / ₄	\$ 1.71	8	—	1%	13.3%	17.8%
Archer-Daniels-Midland/food processing	13 ¹ / ₂	20 ¹ / ₄ –12 ¹ / ₄	2.04	7	7%	51	16.8	26.5
Aydin/electronics	31 ¹ / ₂	34 ³ / ₈ –16 ⁵ / ₈	2.09	15	—	11	18.3	22.4
Bally Manufacturing/hotels, gambling	26	32 ³ / ₈ –20 ¹ / ₂	3.41	8	6	40	20.7	34.4
Cameron Iron Works/oilfield equip	17	53 – 16	5.20	3	8	42	21.7	30.7
Capital Cities Comm/broadcasting	72 ¹ / ₂	80 ¹ / ₂ –64 ³ / ₈	6.49	11	3	20	18.1	19.1
Coleco Inds/toys	14 ³ / ₈	19 – 6 ¹ / ₈	1.74	8	—	36	16.2	60.9
Commodore Intl/computer equip	30 ³ / ₄	40 ¹ / ₄ –16 ¹ / ₈	2.28	13	—	52	40.4	70.8
Computer Sciences/computer services	12 ¹ / ₄	17 ³ / ₈ –11 ¹ / ₈	1.29	9	—	42	14.9	18.9
Computervision/computer equip	21 ¹ / ₂	39 ⁷ / ₈ –19 ¹ / ₈	1.43	15	—	20	21.9	71.5
Cray Research/computer equip	23	39 ³ / ₄ –20	1.43	16	—	13	19.1	90.6
Criton/aerospace	28	29 – 20 ¹ / ₈	4.45	6	—	6	23.2	69.8
Data General/computer equip	22 ¹ / ₂	58 ⁷ / ₈ –20 ³ / ₈	3.09	7	—	38	10.7	9.5
Digital Equipment/computer equip	66 ¹ / ₄	102 ¹ / ₂ –61 ¹ / ₄	7.53	9	—	3	12.8	23.4
GCA/electronics	13 ³ / ₈	41 ¹ / ₄ –11 ¹ / ₈	2.16	6	—	37	23.0	78.0
General Housewares/household prods	7 ³ / ₄	10 ¹ / ₂ – 6	1.58	5	8	70	23.2	8.4
Helmerich & Payne/oil & gas, servs	14 ³ / ₄	48 ³ / ₈ –13 ³ / ₈	3.32	4	8	32	24.5	32.8
Hewlett-Packard/electronics	42 ³ / ₈	48 ⁵ / ₈ –36	2.81	15	9	1	16.3	23.2
Moran Energy/oil & gas	8	26 ⁷ / ₈ – 7 ³ / ₈	1.69	5	7	67	17.5	18.6
Noble Affiliates/oil & gas, servs	9 ¹ / ₄	23 – 8 ³ / ₈	1.95	5	6	36	24.8	21.1
Parker Drilling/oilfield services	10 ¹ / ₄	28 ¹ / ₈ – 9	3.08	3	5	69	25.4	27.8
Prime Computer/computer equip	18	25 ³ / ₈ –15 ⁵ / ₈	1.38	13	—	41	26.5	67.9
ROLM/telecommunications	25 ¹ / ₂	36 ⁷ / ₈ –19 ⁷ / ₈	1.70	15	—	29	19.5	81.0
Rowan Cos/oil & gas servs	8 ¹ / ₂	19 ⁷ / ₈ – 7	2.91	3	3	22	27.2	50.4
Superior Oil/oil & gas	23 ³ / ₈	43 ³ / ₄ –22	2.63	9	8	53	16.8	67.3
Tandy Corp/consumer electron	25 ⁷ / ₈	39 ¹ / ₈ –22 ¹ / ₄	2.10	12	—	22	29.7	27.4
Teledyne/electrical equip	80 ¹ / ₄	157 ¹ / ₄ –69 ¹ / ₂	17.59	5	—	35	24.2	27.5
Thermo Electron/machinery	12 ⁷ / ₈	26 ³ / ₈ –11 ³ / ₈	1.77	7	—	58	10.1	27.9
Western Pacific Inds/precision inst	53	63 ³ / ₄ –48 ¹ / ₄	9.14	6	—	65	25.8	17.9
Whitehall Corp/indust prods & svcs	20 ¹ / ₄	24 ³ / ₈ –12 ¹ / ₈	1.81	11	—	7	26.1	26.3

Source: Wilshire Associates



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The Money Men

At 87, dance master Arthur Murray calls the investment tune for scores of friends and relatives. How's he doing for them? Often very well—and always wisely.

The light fantastic



*Arthur Murray in good court position.
The ball to keep your eye on is bonds.*

By Dero A. Saunders

ARTHUR MURRAY, the man who taught America ballroom dancing, still finds time for an occasional fox-trot. But he is more likely to be listening to the stock ticker's beat than the latest disco rhythms.

At 87, Murray is perhaps the nation's oldest hands-on money manager. From his Hawaii penthouse he invests some \$15 million for himself, his immediate family and a swarm of more distant relatives and friends. Murray charges no fee for any of his services, but his performance is impressive indeed. Over the past four-plus years, for example, his major account has averaged gains of 32%.

Murray's outside funds are organized into four *hui*, Chinese-style partnerships common in Hawaii. That lets him operate exempt from SEC registration. David Teichman, New York broker and Murray's brother, executes orders and keeps records for the largest *hui*, and its investors are Murray's relatives, mostly named Teichman and few of them affluent. "I changed my name in 1914 when Germans were unpopular," explains Murray.

Indeed, Murray backed into investing as a way of preserving his own assets. He had dabbled in stocks for years, but in 1952 he sold his 50% Arthur Murray Dance Studios for \$1 million, money someone had to manage. For a time he used Morgan Guaranty, which went heavily into municipal bonds. "They said I didn't have to pay taxes that way," explains Murray, "but the bonds paid only 1% or 2%. So I kept Mrs. Murray's money there and put mine in stocks. My money soared and hers went down."

Murray switched advisers several times without being impressed. "At the New York trust companies remind me of sheep in Brooks Brothers clothing," he explains. "Whatever one does the other does."

Then, in 1968, Murray moved full time to Hawaii and claims to have spent 50 hours a week over a five-year period studying investing. That's when he developed his own money management style. Murray thinks diversification is a delusion. He dislikes asset-rich companies such as those in FORBES' Loaded Laggards listings. (In Atlanta 60 years ago, he recalls, a famous financier persuaded him to sell 200 shares of Coca-Cola because it had no assets—stock that's now worth \$12 million.) Murray also believes stock market advisory letters are a waste of time. And he views gold as a safe haven only for fools, easily

capable of dropping below \$100 an ounce "if the economy recovers and people are not scared."

The most difficult rule for Murray to follow: Don't take market tips. He tells why: "In 50 years of playing the market, the most money I ever lost was on the stock of American Broadcasting Cos. Its chairman, Leonard Goldenson, was our neighbor in Westchester. We often played tennis on our court, and for three years, between sets, Leonard always told me how well ABC would be doing 'next year.' For me, next year never came around."

Instead of tips, Murray prefers to draw his own time-tested conclusions based on what he hears and reads. Take oil. As Murray said over two years ago, "When the Arabs started making it tough for us, I realized the government would have to encourage producers here to drill for more domestic oil, so I went in heavily for oil stocks—not only oil but the companies that furnish the drilling rigs, make the tools and supply other equipment." For a long time those stocks performed extremely well, carrying the Murray group with it.

Though Murray sold many of his oil and oil-service stocks before they took their worst dives, their slump has tarnished his performance this year. Ironically, he could have avoided much of this decline if he had broken his rule about not taking tips.

"Unfortunately," says Murray, "I didn't take the advice of a man [whose mother's family controls Superior Oil]. Almost two years ago he called me and said, 'Sell all your oils, everything, they are going to go down.' When you listen to someone who inherited his money, you don't put too much stock in what he has to say, but he was right. He said, 'Meet me at seven o'clock for breakfast and I'll explain.' Well, that is the middle of the night to me, so I didn't meet him, and I wish I had. I would have saved \$4 million or \$5 million."

For the last year or two Murray admits to doing better for his personal accounts than for his *buis*—not because he saves some juicy deals for himself but because he hesitates to take certain chances with other people's money. "In 1982 I made a lot of money in takeovers," he says, though he doubts that they will be a source of future profits until interest rates go down and stay down. "If you're a businessman and want to take over another business, you borrow the money. If you have to pay 20%, you think twice and usually change your mind."

Another area in which Murray invests only his own money—some

The artist as a young moneymaker

The first FORBES article on Arthur Murray appeared—with his byline—in our issue dated Apr. 17, 1920. The title: "This Student Earns \$15,000 a Year." It told how a poor but ambitious young Georgia Tech student managed to make that sum—equal, after taxes, to perhaps \$100,000 today. New York-born Murray was back in school after some years of teaching dancing in North Carolina. He made his princely sum by working desperately hard and promoting his dance lessons with a slickness beyond belief.

Two of the most interesting aspects of the story, however, are not in the article. How did Murray, with only a year of high school, get into Georgia Tech? The school of business administration, headed by a man who had run an Atlanta typing school, was so new it would accept almost anybody.

Also omitted was the story of Murray's meeting in Atlanta with FORBES editor and founder B.C. Forbes to review the manuscript. "I remember we were sitting in front of a fireplace. He [had] asked



Murray at 25

me to write my story, and I wrote about a dozen handwritten pages. He read the first one and threw it in the fireplace, and the second—about four he threw in the fireplace. Then he said, 'Always write an introduction, and then always throw it away.' So now when I write, I go right into it without introduction."—D.A.S.

15% of his total—is real estate investment trusts. But they, too, are not for novices. "When you're dealing with real estate people," he explains, "you're not dealing with the most ethical people in the world. You're dealing with a lot of sharpshooters and a lot of crooks, and you have to be extremely careful."

If the oils are out of favor, takeovers too few and REITs too risky, where's an average investor to look? Murray's answer, in a spectacular display of octogenarian flexibility, is—bonds, specifically municipals. "Those bonds that were yielding 2%," he says, harking back to the old Morgan Guaranty days, "are now yielding as much as 14%, insured. There's a group of four big insurance companies that do the insuring, so it's practically guaranteed. That means if you're in the 50% bracket you must earn 26% to do as well. So I consider these bonds better buys than *any* stocks." Recent market trends bear him out. So far this year municipal bonds have done far better than stocks.

Earlier this year he bought half a million dollars' worth of insured Hawaii airport bonds, and also sold all the stocks in his charitable foundation to put \$1 million in government

bonds with yields up to 15% (governments because tax exemption does not benefit a foundation). Bonds now make up over half of the portfolio of his major Hawaii *bui*.

Do not, however, think that Arthur Murray's new-found love for bonds means that he's off stocks forever. Murray is quite prepared to look again one day at the oil and oil-supply issues that have just bitten him: "I think we are reaching a point where the oils will be a very good buy. When Exxon is selling at 4 times earnings, yielding 11%, you can't ask for anything more. But when there are no buyers, there's no telling how low it may go."

The one thing Arthur Murray is *not* ready to do is give up his role as money manager for others. Much as the tennis and the swimming at Waikiki keep him physically fit, so the constant preoccupation with investments keeps his mind alert. Even he recognizes how close his astute investing comes to being a kind of therapeutic philanthropy. "After you accumulate all you need as you get older," he says, "it's time to give it back one way or another. You give it to charity or you help those who can't help themselves. But you have to be useful to exist, not just wait to die." ■

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Rather than looking at what might have been, consider looking further ahead.

NEVER MIND THE SPILLED MILK

By Ben Webberman



The sharp, sudden mid-August rally in bond prices prompted a lot of investors to kick themselves for not having "locked in" the higher yields available just days before. (Some undoubtedly are still kicking themselves.) My advice to them is: Knock it off. Nobody ever made a dollar crying over spilled milk. It's the future that counts.

Granted, a lot of milk has been spilled. *Within days*, the yield on three-month Treasury bills dropped from 10.65% to 7.25%, on six-month bills from 11.80% to 8.85% and on one-year bills from 12.60% to 9.90%. But there's plenty of milk, if not cream, to come. Rates will continue to drop—slowly, and not especially steadily—and this is the time to decide how to benefit.

First, a caution. Don't be suckered into thinking that *all* debt securities will benefit equally from declining yields. Quality will command a premium. It should. There are still substantial strains in the economy, and some painful business failures lie ahead. During the still unfolding shakeout, stick to highest-grade fixed-income securities.

Rather than look back on what might have been, if you want to lock in yields, consider extending maturities. When the one-year T-bill yield fell to 9.90%, the yield was

11.35% on two-year notes and 12% on four-year notes. Beyond that the yield curve was positive to the seven-year maturity range—the longer the maturity, the higher the yield—but not commensurate with the added risk. Beyond seven years, rates of return shrink. When the two-year Treasury notes were yielding 11.35%, the seven-year notes were yielding 12.25%, the 30-year bonds just 12.05%, in the secondary market. I would stick to the two-year-to-four-year maturities. U.S. Treasury money market mutual funds will soon be yielding only 9% or so.

Sticking to quality in the government market means direct Treasury obligations rather than federal agencies. Federal agency credit is excellent, but the yield increments on their debt do not justify purchase.

In light of these sentiments, it's no surprise that some mutual funds are being set up to specialize in intermediate-term U.S. government issues. John Hancock switched from a diversified to an all-government fund. It has an average life of less than five years, and the yield is 10.21%. Kemper has launched a U.S. government securities fund to invest in GNMA and federal agencies as well as direct Treasuries. Its average life is ten years and the yield is 13.14%. These rates will stay high on today's prices.

But remember, these are like traditional mutual funds, not money market funds. The prices of these government funds fluctuate. Because of the longer maturity, price cannot be controlled to remain close to \$1 a share. Therefore, the value of shares will be worth more if rates ease and worth less if yields rise.

Be aware that these are *load* funds. Hancock takes an initial bite of 8% in sales fee, Kemper 4%. An investor who pays \$10,000 into Hancock's

intermediate government fund will have, after the sales load, just \$9,200 at work. Some no-load managers are setting up similar funds, but so far none is substantial in size. Midwest Income Trust Intermediate-Term Government Fund, \$10 million in size, has an average maturity of 2.2 years and yields 11.8% on its price of \$10.23 a share.

The secrecy premium

It has long been an open secret that one easy way to hide underground money—while earning interest on it—is to buy U.S. Treasury and state and local government tax-free bonds in coupon or bearer, as contrasted to registered, form. You see it routinely in banks—people leaving the safe deposit vault and walking to the teller to deposit coupons. Declaring that income is not, alas, quite so routine. The IRS has not been able to keep up with evasions, even though taxpayer identification numbers are usually required on the deposit. Record keeping by hand overwhelms IRS surveillance.

The 1982 tax bill will change that. The bill requires registration of all U.S. government and municipal bonds brought to market after Jan. 1, 1983. Importantly, bonds outstanding in bearer form before that date will be permitted to remain in bearer form. The bill, however, provides that 10% be withheld from dividends and taxable interest paid to most investors after July 1, 1983. Only persons who can show that last year's federal taxes were low—on a scale that ranges up to \$2,500 for elderly couples—will be free from withholding.

With this double link between issuers and investors that will have to be reported to the IRS on computer tape, expect a dual market to develop in the prices of bearer and registered bonds from the same issuer. In a number of cases where the dual variety exists today, the registered bond carries a lower price that yields about 0.25% more than the same bond in bearer form.

The outstanding supply of bearer bonds is so huge that dealers don't expect the new restrictions to have significant additional price impact right away. Over the years, however, bonds in bearer form will become a rarity commanding substantial premiums. ■

Ben Webberman is economics editor of FORBES magazine

Wall Street's mid-August fireworks were great fun but of doubtful significance.

A WOODSTOCK FOR THE INVESTMENT SET

By **Srully Blotnick**



Do you think the explosion of bond and stock prices in mid-August was caused by an enthusiastic response from investors to the sharp decline in interest rates? I thought so, too, until I began querying the members of my various samples. Consider the comments of the following investors. Larry is 46 and owns his own wholesale office-supplies firm in Houston. "It's been quite a while since I lost this much money in so short a time," he said glumly. Ed is an electrical engineer in the Boston area. "A fool and his money soon part company. Boy, oh boy, was I ever the fool. That rally [on Aug. 17] really taught me a lesson."

What lesson? Well, both Ed and Larry were *short*, not long, when the eruption occurred. Make no mistake about it: They weren't the only ones. On Aug. 19, the New York Stock Exchange reported that investors were short a total of over 96 million shares when the upside burst occurred.

Unless you understand precisely how people in Larry's and Ed's short position reacted on Aug. 17, 18, 20 and 23, it is impossible to have a clear picture of the events that transpired at the time. What did they do during that fateful

week? They panicked. Completely. As Larry put it: "I was sitting in my office [on the 17th], eating lunch, and my broker, who's a good friend of mine, called to tell me that the market was up about 20 points. 'Oh, my God,' I thought to myself, 'I'm short over \$100,000 worth of stock, and I'm about to get my head handed to me.'"

Larry agonized for a brief period, then decided to buy back half of his short position that afternoon, with the market up 33. He covered the rest the following morning, after a sleepless night, with the market up another 18. Total loss: \$12,000. Ed's was a little greater, about \$16,000. Both felt they got off cheap. "It was a very close call," said Ed after he had closed out his position. "I was sure I'd get creamed."

These two were typical of thousands who had felt smug and secure being short in a falling market and were suddenly frightened into covering. In sum, two groups of investors felt compelled to buy frantically during the week of Aug. 17: 1) institutional investors and 2) the horde of individual investors who were short. Professional money managers went along with the upside frenzy for an important reason: They were afraid not to. A portfolio manager at a major New York bank told me on the morning of the 23rd, "Do you know what would happen to me—to all of us here—if we decided to do nothing? If I sat on my hands and the market kept rising, I'd look like a damned fool sitting with this much cash and short-term paper." The events then and since have therefore been a textbook instance of the institutional herd mentality. These giants jumped in, not because their thinking had undergone an overnight

metamorphosis, but because they were stampeded.

Don't let the same thing happen to you. Keep in mind that when the market came roaring off its lows in 1975 and soared hundreds of points in a matter of months, the best investment opportunities were still a good way down the road. As the Forbes/Wilshire 5000 Review (see p. 227) makes quite clear, the Wilshire—meaning the great majority of stocks—didn't start its most powerful upward climb until three years later, early in 1978.

It was then that real fortunes were made. It's all well and good to talk about doubling your money on Eastman Kodak, but for the secondary stocks on the NYSE, as well as on the Amex and o-t-c, gains of 500% and 1,000% later became commonplace.

So when someone says to you, "I missed the boat; I didn't buy anything before the big rally," tell them the facts. Tell them, "Besides being the greatest short-squeeze ever recorded, that 800-million-plus-share burst was really just Woodstock for the investment set. The only thing you missed was *history*, not profits. If we have in fact entered the initial stages of a new bull market—something we won't know until after the November elections—all the truly monumental gains are yet to come, in the second-tier stocks."

It is very revealing to notice which group of investors had the greatest sense of perspective about the events of the last two weeks. It was those who already had a substantial portion of their liquid assets tied up in stocks.

They, in contrast to TV newscasters, found the experience overwhelming. As one with a portfolio of common stocks worth more than \$650,000 put it, "I've watched Honeywell, for instance, sink from 115 to 60 in less than two years. Who cares that it's now back at 69? It, and everything else I own, still has a long way to go just to get back to where it recently was. And so does the economy."

The financial state of the nation, let alone the stock market, is still fragile and subject to volatile swings. Take your time about jumping into either stocks or long-term bonds. And pick your shots—carefully. ■

Srully Blotnick is a research psychologist and author of Getting Rich Your Own Way and Winning: The Psychology of Successful

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Item	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
Total Assets	10,000	9,500	9,000	8,500	8,000	7,500	7,000	6,500	6,000	5,500	5,000	4,500	4,000	3,500	3,000	2,500	2,000	1,500	1,000	500	0
Total Liabilities	4,000	3,800	3,600	3,400	3,200	3,000	2,800	2,600	2,400	2,200	2,000	1,800	1,600	1,400	1,200	1,000	800	600	400	200	0
Equity	6,000	5,700	5,400	5,100	4,800	4,500	4,200	3,900	3,600	3,300	3,000	2,700	2,400	2,100	1,800	1,500	1,200	900	300	300	0

ANNUAL RATES

Item	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
Return on Assets	15%	14%	13%	12%	11%	10%	9%	8%	7%	6%	5%	4%	3%	2%	1%	0%	0%	0%	0%	0%	0%
Return on Equity	20%	19%	18%	17%	16%	15%	14%	13%	12%	11%	10%	9%	8%	7%	6%	5%	4%	3%	2%	1%	0%

QUARTERLY DIVIDENDS PAID

Quarter	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
Q1	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Q2	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Q3	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Q4	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

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The current stock market rally has not changed anything: The Reagan economic program is failing.

A POLITICAL TRAGEDY

By Ashby Bladen



Don't let the stock market rally divert your attention from an unfortunate fact: The chance that President Reagan will be able to lead this country out of its worsening economic and financial troubles has now become a desperately slim one. The most likely prospect for the next two years is that the bond market's continuing fear of serious inflation will keep long-term interest rates so high as to prevent a healthy economic recovery. Policy makers will go on bickering about whether it is better to borrow and try to spend our way to prosperity, or to reduce government borrowings in the hope that that will allow long-term interest rates to decline enough for a normal cyclical recovery to become possible.

When those two futile years are over, the presidential election will give us another opportunity to assess our problems realistically and devise workable solutions. The 1980 presidential election provided us just such an opportunity and we botched it. Unfortunately, this year's congressional elections will *not* provide us a good opportunity to restore effective leadership.

The tragedy is that Mr. Reagan has always seen the fundamental

problem more clearly than most professional politicians. That led some of us to hope that he would have the courage to recommend a realistically workable solution. The fundamental problem is overgovernment, and, at the beginning of his campaign, Reagan talked about getting the government off the backs of the American people. So far so good, and I published the hardcover edition of my book in the fall of 1979 to give that enterprise a modest helping hand. But, by the time the paperback edition came out in the late fall of 1980, Candidate Reagan had yielded to the temptation to which most politicians are exposed. He told voters that there is an easy and painless solution to our problems.

Reagan's easy solution was Lafferism. That is the notion that taxes have become such a burdensome disincentive to productive efforts that if marginal tax rates were reduced 30%, then within three years' time we would all be working so much harder and earning so much more that government revenues would actually be higher at the lower tax rates. Therefore, there was no pressing need to reduce expenditures, and any resulting deficit would be an unimportant transitional phenomenon.

In the preface to the paperback edition I agreed that the burden of taxes was indeed counterproductively high and should be reduced. But I also argued that the notion that the budget would be balanced by rapidly rising revenues placed a wholly implausible burden on human adaptability and responsiveness. Instead, I predicted that the tax cuts would cause a huge increase in the government's deficit and that fears about the inflationary consequences of the deficit would

drive interest rates through the roof. More important, every bond market analyst whose opinion is worth having reached the same conclusion.

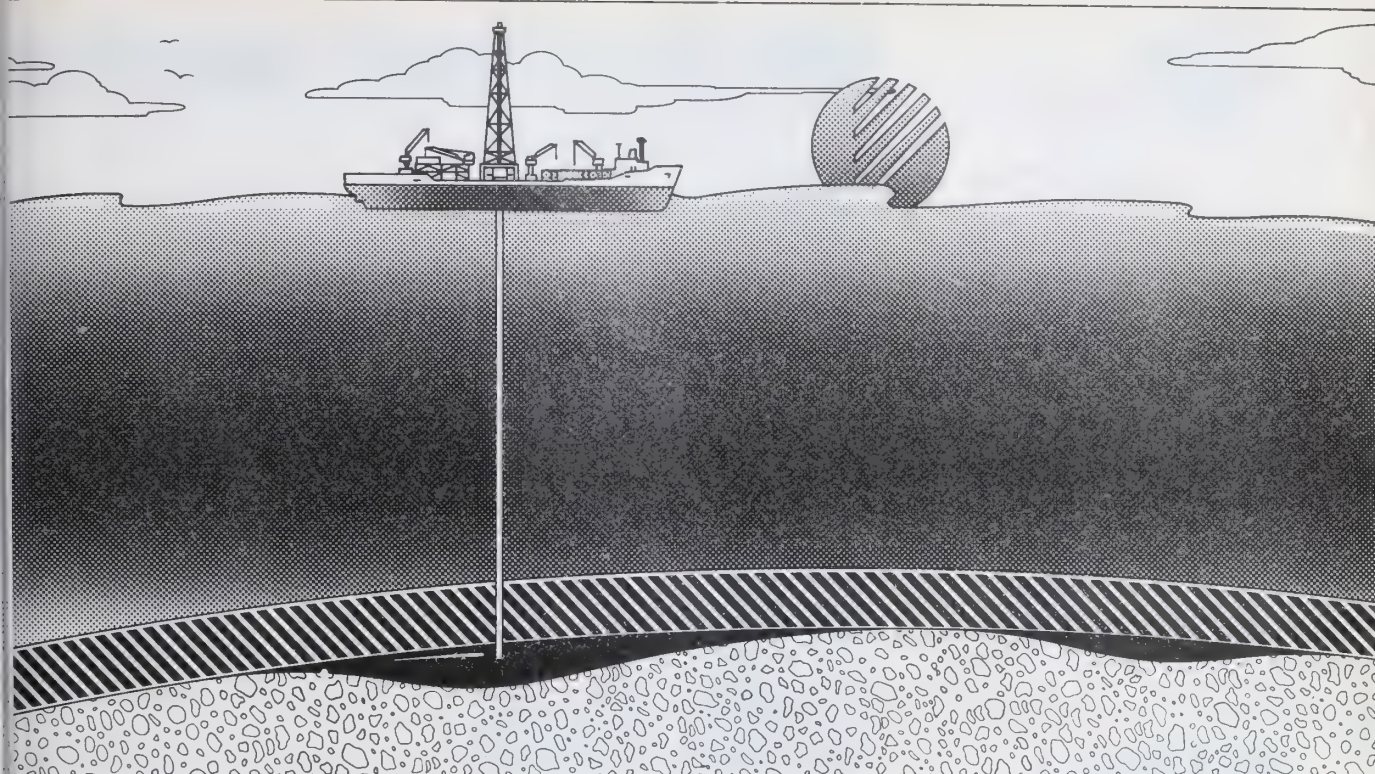
Toward the end of 1980, two of the President-elect's advisers, Congressman Kemp and David Stockman, did an amazing thing. Wondering what the bond market's response to Reagan's announced policies would be, they traveled to New York and actually asked the bond traders. I reported their conclusion to you in the Jan. 19, 1981 issue of *FORBES*. It was a clear warning: "An initial policy package that includes the tax cuts but does not contain . . . a believable plan for curtailing the federal government's massive direct and indirect credit absorption will generate pervasive expectations of a continuing 'Reagan inflation.'" Those expectations, in turn, would lead to soaring interest rates and an "economic Dunkirk."

David Stockman became President Reagan's Director of Management & Budget, and an interview with him in the December issue of *Atlantic* magazine made it clear that in his opinion the required expenditure reductions were *not* being made. I reviewed the article in a *FORBES* column entitled "Stockmangate" and argued that it constituted a full-blown crisis for Reagan. Unless the President was now willing to face financial reality, his Administration was in danger of falling, like the Nixon and Carter Administrations that preceded it.

Now the President has finally recognized that he must do something about the deficit, but the way he is going about it risks throwing out the supply-side baby with the Lafferite bath. Excessive taxes are a disincentive to productive efforts and a disincentive to doing your tax return honestly. The American system of self-levying income taxes is beginning to break down.

President Reagan has at last accepted the inherent incredibility of Lafferism, but at the moment, the consequence is that there is nothing left of Candidate Reagan's policy proposals. The only chance that he has left to avoid failure is to propose a drastic reduction in expenditures—mainly military expenditures. Unless and until he does that, I would not let myself get carried away by the prevailing euphoria. ■

Ashby Bladen is senior vice president for investments of the Phoenix Mutual Life Insurance Co. and author of How to Cope with the Devolving Financial Crisis.



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Market Trends

There is going to be an economic recovery because Ronald Reagan and Paul Volcker want to have one.

THERE ARE NO GURUS

By Richard B. Hoey



Not all Wall Street economists have been to visit a genuine guru complete with loincloth, but I have. Many, many years ago, I was in Benares, a holy city on the banks of the Ganges in India. A barefoot Frenchman wrapped only in a towel approached me and asked if I would like to meet his guru. I said: "Why not." I walked miles in the dark until I reached the campfire of the guru behind an abandoned temple.

After several hours, the guru fixed his hypnotic eyes on me and said: "All men are brothers. We are your brothers and we need money. Give me your money."

If you have been managing your investments according to the advice of some Wall Street guru, you know how I felt at that moment.

James Dines was bullish on gold from \$35 up, but he kept bulling gold from its peak into the \$300s. Finally, he caved in and withdrew his bullish advice.

Joe Granville has been right recently, but he doesn't tell you how many investors he slaughtered with bullish advice in 1973-74, the greatest bear market in stocks since the Great Depression.

Now we come to Henry Kaufman, who said that by year-end long bond yields would go above their

old peaks (15.20% on 30-year government bonds). Then, all of a sudden, he tells you that they will drop to 9%, leaving more than a few portfolio managers gasping for breath.

No offense meant to Henry Kaufman. He is a knowledgeable student of the market. But he is not a guru. There are no gurus. Sad but true. Infallibility is not an attribute of man. So you need to trust your own good judgment before you part with your money.

I am no guru. I have been wrong—not always but sometimes. With this disclaimer, I offer my view of the bond and stock markets.

The long secular rise of inflation has topped out. First, on Oct. 6, 1979 the Fed changed its method of operating and adopted a disinflationary monetary policy. Then, in late January 1980 gold topped out near \$850 and silver near \$50. In the fall of 1980 three key events occurred: Ronald Reagan beat Jimmy Carter, spot oil prices topped out at over \$40 and the Fed tightened monetary policy at the beginning of a recovery for the first time in the postwar period.

Finally, on Sept. 30, 1981 long-term U.S. government bond yields peaked at 15.20%. I believe that the interest rate peaks are behind us, and that even lower yields will ultimately be reached in future years, but we have a few hurdles to leap in the meantime.

The main problem is that future budget deficits will be excessive unless the President and Congress can agree on a deficit-narrowing program. I have been relatively optimistic that over a period of years, legislative initiatives to narrow the deficit will emerge, obsoleting the current forecasts of deficits of over \$200 billion by fiscal 1985.

Another problem is that interest

Richard B. Hoey is first vice president, economist and investment strategist at Bache Halsey Stuart Shields

MONEY & INVESTMENTS

ates may have a temporary rise this fall, as money supply growth and economic activity rebound. In addition, there is the risk of further problems in the banking system.

How about the economy? There is going to be an economic recovery because Ronald Reagan and Paul Volcker want one. The double-dip recession of 1980 and 1981-82 occurred because policy makers decided that it was necessary to fight inflation, not because of some inherent weakness in the economy. I am dubious about the thesis that there will be a triple-dip recession, with another round of recession in 1983, because I don't think the policy makers want one.

Irrespective of short-term trading moves, there are a number of favorable factors for the stock market over the next year or two. First, the history of the presidential cycle in the stock market is that we usually get a good stock market advance from the congressional midterm election through the following presidential election.

Second, the stock market usually shows a strong gain in the 12 months following a market low late in a recession.

Third, the stock market usually shows a strong gain when a severe decline in stock prices is followed by a major rise in the cash reserves of institutions.

Fourth, when everyone starts talking depression, we are usually near the beginning of a stock market recovery. When the cover of the *Reader's Digest* asked whether we could have another Great Depression, you had to suspect that we were near a market low.

Within the stock market, I would favor defense stocks such as General Dynamics and depressed cyclical stocks such as Hercules.

General Dynamics (27) recently took another of its periodic write-offs, this time on its SSN-688 nuclear attack submarine. But the momentum of sales and earnings gains for the company should be strong in future years. Earnings per share should be about \$2.40 in 1982, \$4.90 in 1983 and \$6.90 in 1984, with earnings of about \$10 in 1986-87.

Hercules (17) should earn about \$2.35 per share in 1982, \$3.25 to \$3.50 in 1983, with earnings power likely to approximate \$5 by 1985. ■

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FRANCHISING

By Thomas P. Murphy



Want to own a Pizza Time Theatre restaurant? Figure it will cost you about \$700,000. You don't like pizza that much? How about a Midas Muffler Shop? The entry cost there is only \$135,000. A dental clinic? That can be yours for \$200,000, fully equipped with financing available. The catch is that you have to be a dentist.

Franchising, becoming a franchisee, is the most common way Americans go into business for themselves. There are nearly half a million franchise businesses in the U.S. Roughly one-third of all retail sales are made through franchise outlets. The pros of this approach are obvious. Instead of the risk and anguish of venturing out on your own, a sound franchisor offers a proven product, a refined business system, training, advertising and, most important, knowledge of what works and what doesn't.

There is a price, and it goes beyond the franchise fee you pay. Franchising is the compromise road to being on your own—the risk is less; so is the freedom. When the franchisor dictates the hours you will keep your fast-food restaurant open, the precise items you will serve, how the help will dress, through ad infinitum, you may wonder how different the life of a

franchisee is from that of an employee. Well, there is one difference. A couple of successful fast-food restaurants can make you rich.

How do you look into franchising possibilities? As a start I suggest that you get a copy of the International Franchise Association's Membership Directory.* It lists over 300 available franchises. The following examples will give you the flavor of the thing, and what starting out can cost:

Budget Rent-A-Car—\$25,000 to \$100,000.

Western Auto Supply—\$60,000.

Computerland—\$150,000.

Dunhill Personnel System, Inc.—\$27,000 to \$45,000.

Dunkin' Donuts—\$50,000 to \$100,000.

Burger King—\$100,000.

Lawn Doctor—\$18,500.

Speedy Printing—\$37,500.

Arthur Murray—\$20,000 to \$50,000.

The dollar numbers, particularly where real estate is involved, have to be taken as "and up." Good locations cost. On the other hand, the remarkable success of franchising has created an infrastructure of financial channels that can cut your cash entry cost. Restaurant equipment lends itself to tax shelters. So do leased automobiles. Real estate can usually be financed. Your cash cost for getting started may not be as much as the franchisor indicates.

What are the problems? Many. They begin with the fringe franchisors, whose principal interest is getting an up-front fee. Get-rich-quick advertising, placed by marginal franchisors, has been a staple for as long as I can remember. Franchising is a field that has attracted more than its share of crooks.

However, there is protection. In fact, quite a lot. Sixteen states have disclosure laws, and there is also an

FTC disclosure requirement that is as comprehensive as a stock registration. It tells you just about as much as you might want to know about a franchisor's business. If a disclosure statement isn't available, don't get involved.

There are other protections. Best, I think, is the common sense one of talking to people who already have the franchise. So long as you aren't potentially a competitor in their territory, they can be frank. And if they happen to be sore at the franchisor, they can be very frank.

But there are inherent conflicts that no amount of talk about "partnership" can wholly suppress, and these conflicts make franchising difficult. In the early days, the franchisor chose to build his business through franchising because he could lay off his distribution expenses on a lot of local entrepreneurs. With his success that became less important. But the managerial ability of the entrepreneurs was still something that he could rarely duplicate with hired help in a company-owned store. So far, so good, but there franchisor and franchisee interests tend to diverge.

While you want as much protection from direct competition as possible, the franchisor, as his business matures, wants to put as many franchisees into a territory as he can reasonably get. He wants you to make a good living, but rich franchisees get neglectful and hard to deal with. He prefers you a bit hungry. There is also that end-of-the-game question. You have built a business; your basic wealth—not to mention years of your life—is in that business; and you have to be able to sell. Can you? And with what restrictions from the franchisor?

Franchising works. Why else would half a million Americans have gone in for it? But it also generates plenty of litigation and complaints to better business bureaus. My bottom-line advice then is: Don't be starry-eyed. Spend as much time investigating a potential franchise as you would a venture you were starting from scratch.

In business, confidence is no substitute for knowledge. ■

Thomas P. Murphy heads a venture capital firm, Partnership Dankist, Stamford, Conn.

*International Franchise Association, 1025 Connecticut Avenue, Suite 1005, Washington, D.C. 20036. Membership Directory costs \$1.50.

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	Los Angeles at Oakland	3:45PM
Sunday, Dec. 19	Atlanta at San Francisco	8:50PM
Monday, Dec. 20	Cincinnati at San Diego	8:50PM
Monday, Dec. 27	Buffalo at Miami	8:50PM

POST SEASON GAMES ON CBS RADIO

*Sunday, Jan. 2, 1983	AFC & NFC First Round Playoffs	TBA
*Sunday, Jan. 8, 1983	AFC & NFC Divisional Playoffs	TBA
*Sunday, Jan. 9, 1983	AFC & NFC Divisional Playoffs	TBA
*Sunday, Jan. 16, 1983	AFC & NFC Championship Games	TBA
Sunday, Jan. 30, 1983	Super Bowl XVII at the Rose Bowl, Pasadena, California	TBA
Sunday, Feb. 6, 1983	AFC - NFC Pro Bowl at Aloha Stadium, Honolulu, Hawaii	3:50PM

*Doubleheader

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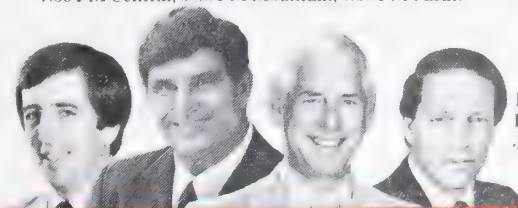
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L. to r.: Brent Musburger,
Hank Stram,
Jack Buck, Dick Stockton

Cycles, by definition, occur regularly, implying predictability. No wonder commodity traders find them so fascinating.

THE RHYTHM METHOD

By Stanley W. Angrist



A cycle is an event—in nature, in business—that occurs with some regularity. Because cycles occur with regularity, they hold out the possibility of predictability. That's what makes the study of cycles so intriguing to commodity traders.

Fundamentalists argue that cycles occur because of the periodic nature of agricultural activities or the economy. But speculators who use cycles to make trading decisions stress that cycles appear to be independent of fundamental factors. They note that on occasion cyclic peaks and troughs correlate well with the current economic situation or the harvest season, but that on the whole cycles tend to lead such events.

Isolate a cycle in a commodity's price, they reason, and you significantly improve your chances of going long a futures contract near the trough in the cycle and selling out the long position and going short near the peak.

Simple as it sounds, most traders who try to make a dollar on cycle schemes fail. The failure rate is high despite the fact that over the past 30 years or so, the cyclical characteristics of the most widely traded commodities have been elaborately plotted, with fairly reliable cycle

lengths identified for many of them.

The steps required to find the next major move are fairly straightforward, too. One starts with a chart on which a cyclic pattern has been superimposed as a zigzag line. (See the pork belly chart below.) Add up the length of all the cycles and divide by the total number of cycles under observation. The result is the average cycle length. Then indicate a projected low on the chart by plotting the average cycle length into the future from the last trough. Next, compute a cycle length that is

cycle tops than in bottoms.

Note the words "average" and "probably" in the discussion above. In them you have two good reasons why most cycle schemes fail. But there is another difficulty.

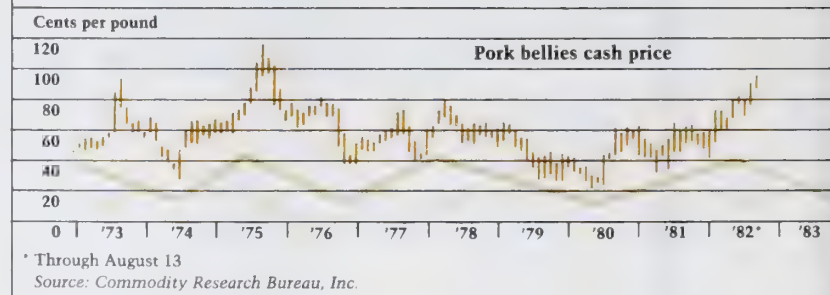
Identifying the window is only about 25% of the task. Once the time window has been found, there must also be: 1) confirmation of the trend change; 2) a determination of other cyclic influences; and 3) the utilization of a timing signal that allows for entry at a precise time. Using cycles, I hope you are thinking, no longer seems simple.

Space does not permit a discussion of the other steps required to use cycles to trade commodities. But for traders who wish to learn more about them, excellent help is available in a new book by Jacob Bernstein entitled *The Handbook of Commodity Cycles: A Window on Time* (John Wiley & Sons, New York, 1982).

Readers who want to learn more about the study of cycles in general are urged to contact the 40-year-old

Wave upon wave

Shown below is a chart of the cash prices for pork bellies at Chicago. Imposed on the bottom of the chart is an ideal cycle that varies in length from 2.8 to 4.1 years, with an average cycle length of 3.6 years. This cycle has been observed back to 1958. Cycle analysis indicates that the next low will occur between mid-1983 and mid-1984.



15% larger and another one that is 15% smaller than the average cycle computed earlier. (Experience has shown that plus or minus 15% adjusts for variance in average cycle lengths.) Indicate these points on the chart. That identifies the "window on time" in which the next low will probably occur. One could do the same thing with cycle tops, except that, for reasons that are not entirely clear, there is considerably more variance in the occurrence of

Foundation for the Study of Cycles (124 South Highland Avenue, Pittsburgh, Penna. 15286). The foundation, started in 1940 by the late E.R. Dewey, has isolated thousands of cycles.

Cycle trading may or may not be for you, but any commodity speculator who hopes to remove profit from the market consistently should be aware of their existence and, at least, how others may be using them. ■

Stanley W. Angrist is a commodity speculator and a writer on the subject of commodity trading.

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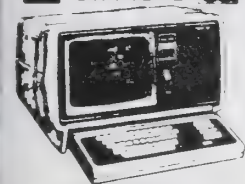
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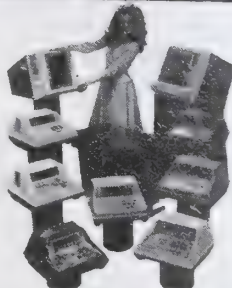
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Items from past issues of FORBES

Sixty years ago in FORBES

From the issue of September 16, 1922)

Here is one phase of the industrial revolution on the Pacific which will interest business men throughout the rest of the country. Very rapid strides are being made in manufacturing and making merchandise formerly bought in the principal commercial centers of the East and Middle West, a development which has been greatly stimulated by high railway freight rates.

"Los Angeles, for example, has become a notable center for the needle trades. In fact, I am authoritatively told that the garmentmaking industry in its various branches now ranks in magnitude with the lumber activities of the city."

In the automobile manufacturing section of the country one hears much merger talk. There is some question as to whether many mergers will come within the next nine months or whether the weaker companies will survive while improvement in general conditions lasts. As you may or may not know, sales of automobiles dropped off sharply about two months ago, and demand has not revived since. Such aggressive figures as the Pintos of General Motors, Henry Ford, W.C. Durant, the Studebaker, Packard, and other progressive interests are expected to branch out."

The greatest production of gasoline in the history of the oil industry occurred in May this year, when output was 12,229,975 barrels of 42 gallons each. The highest previous production was in September 1920, when 10,806,693 barrels were produced."

The further collapse of the mark is not causing any worry among German business men. On the contrary, the conviction is universal that continuance of the business boom depends upon keeping prices below the world level, which would be impossible if currency were to be stabilized."

Fifty years ago

(September 15, 1932)

Only three months ago President Hoover's defeat in November was widely accepted as a foregone conclusion. But not today. If rehabilitation, revival, if credit, if prices, if employ-



This 1932 farmers' road blockade near Sioux City, Iowa sought better milk prices

ment should make further substantial progress throughout September and October, it would be rash to assume that the present Administration will be cast out of power."

"The farm strike has continued to assume larger and more serious proportions, as was prophesied in this section last issue. At that time the beginnings of the Iowa farm movement were likened to the small beginnings of the bonus march on Washington, which deplorable but powerful publicity in the newspapers throughout the country swelled into a serious problem. The same thing has apparently happened to the farm strike, and it has spread not only through Iowa but to numerous other states."

The note of alarm in the above item mirrors the concern that observers of that day felt for the unexpected radicalism that farmers were showing in the early 1930s. They had much to be radical about: The mortgages they carried on their farms, or the notes they owed for farm machinery, did not go down with the prices of the farm products they sold. They took it as long as they could, then exploded into movements like the Iowa Farmers' Holiday Association, which vowed to let no farm products move over the roads until prices at least equaled the cost of production. For weeks Iowa roads were blockaded and milk spilled into the ditches.

Another target was the increasing wave of mortgage foreclosures. In a

typical case, a handbill in a county seat would announce a mass meeting to stop foreclosure proceedings on a given farm. On the appointed date a determined group of farmers would appear, drive off any serious bidders, then bid in the property for a few dollars, horses for a quarter, cows for a dime. Judges were threatened, sheriffs intimidated as the Depression's relentless pressure got to some of the most conservative of Americans.

Twenty-five years ago

(September 15, 1957)

"What college courses are the best preparation for future occupants of the executive suite? . . . Some very interesting, if not entirely conclusive, light has been shed on this question in a survey conducted by the American Management Association. Strange as it may seem in this age of atomic and chemical progress, the AMA's evidence points to liberal arts as the best training for the executive suite."

"To pay its bills and keep its fiscal house in order, the Treasury must frequently borrow money with short-term bills. Taking another fistful of short-term paper from the bureau drawer last month, the Treasury went to market. But where it had paid 3.497% interest on its last issue, Treasury brass soon discovered that they could not get away this time with a decimal less than 3.571%."

Labor rids us of three
great evils—irksomeness,
vice and poverty.
VOLTAIRE

No one can make a real
masterpiece of life until he
sees something infinitely
greater in his vocation than
bread and butter and shelter.
ORISON SWETT MARDEN

When money is primary,
life is a blank book.
ROBERT HALF

When you are laboring for others,
let it be with the same zeal
as if it were for yourself.
CONFUCIUS

I cannot afford to waste
my time making money.
LOUIS AGASSIZ

A Text . . .

And they said, Let us
rise up and build. So
they strengthened their
hands for this good work.
NEHEMIAH 3:18

Sent in by Robert B. Eubanks, Columbus, Ga.
What's your favorite text? The Forbes Scrap-
book of Thoughts on the Business of Life is
presented to senders of texts used.

My father taught me to work;
he did not teach me to love it.
ABRAHAM LINCOLN

There is very little
difference in people, but
that little difference makes
a big difference. The little
difference is attitude. The
big difference is whether
it is positive or negative.

JOHN STONE

Thoughts on the Business of Life

*Whether our work be pleasant
or unpleasant depends less
upon the work itself—provided
it be honest—than upon our
attitude toward it. Let us
strive to regard our work as
our best friend in the world,
and the chances are that our
work will become friendly to
us. The worker whose heart
is in his pay envelope is
little likely ever to become
a filler of pay envelopes for
others. It isn't our position,
but our disposition toward
our position that counts.*
B.C. FORBES

Success or failure in business
is caused more by mental attitude
even than by mental capacities.
WALTER DILL SCOTT

Money is a stupid measure of
achievement, but unfortunately,
it is the only universal
measure we have.
CHARLES STEINMETZ

The highest regard for man's
toil is not what he gets for
it, but what he becomes by it.
JOHN RUSKIN

Money is the seed of money,
and the first guinea is
sometimes more difficult
to acquire than the
second million.
JEAN JACQUES ROUSSEAU

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York State orders.

He that hath a trade hath
an estate; and he that
hath a calling hath a place
of profit and honor. A plowman
on his legs is higher than a
gentleman on his knees.
BENJAMIN FRANKLIN

The very first step toward
success in any occupation is
to become interested in it.
WILLIAM OSLER

A salesman minus enthusiasm
is just a clerk.
HARRY F. BANKS

No person who is enthusiastic
about his work has anything
to fear from life.
SAM GOLDWYN

Never is work without reward
or reward without work.
LIVY

People seem to me to be
happiest when they are
working for nothing and
can afford to do so.
ROBERT LYND

If you make money your god, it
will plague you like the devil.
HENRY FIELDING

When a man is no longer
anxious to do better than
well, he is done for.
ALBERT HAYDON

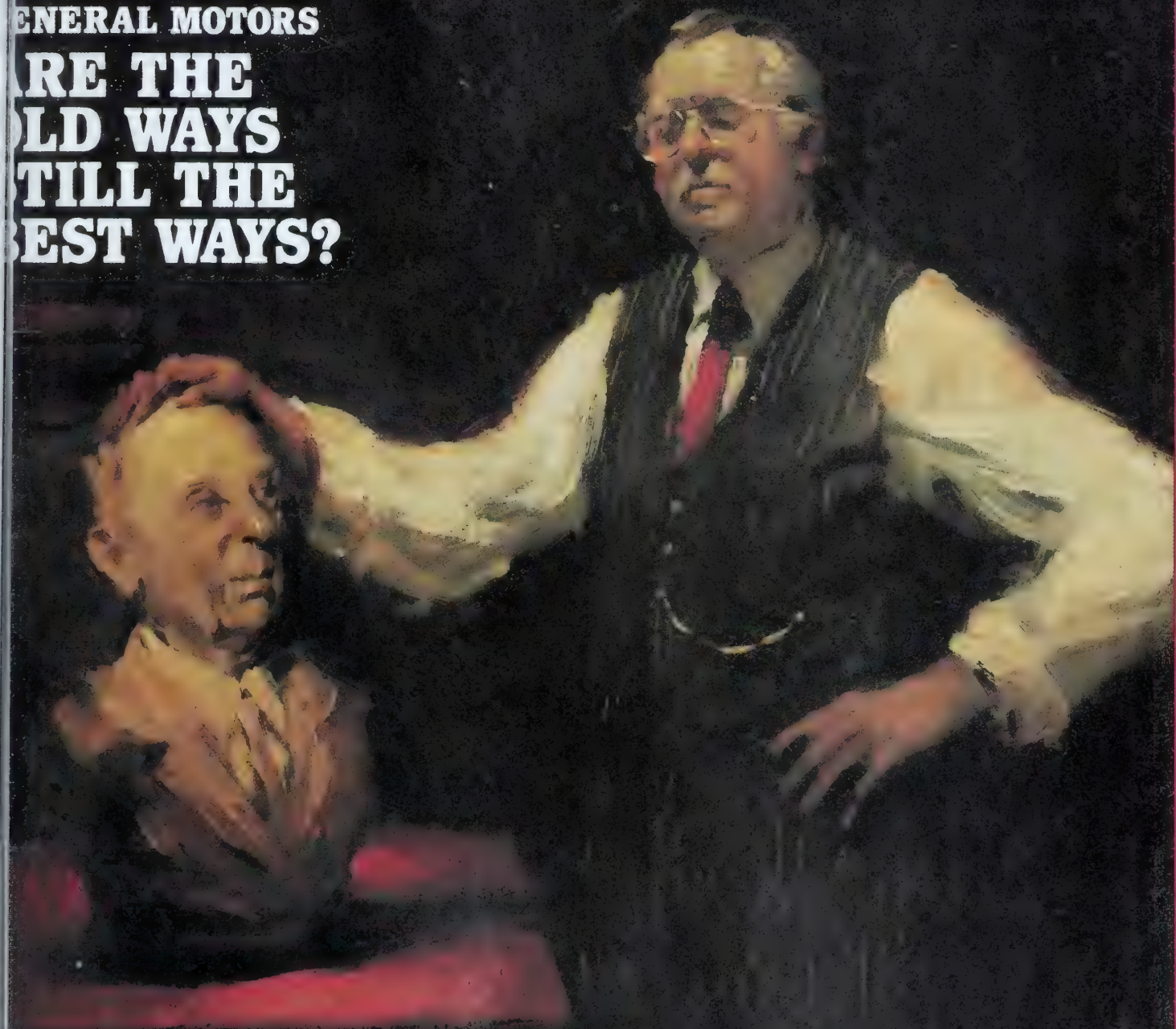
Man must work. That is as
certain as the sun. But he
may work grudgingly or he
may work gratefully; he may
work as a man, or he may work
as a machine. There is no
work so rude that he may not
exalt it; no work so impassive
that he may not breathe a
soul into it; no work so dull
that he may not enliven it.
HENRY GILES

EMBER 27, 1982

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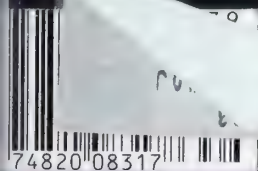
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ARE THE
OLD WAYS
TILL THE
BEST WAYS?



*Roger Smith Contemplating
A Bust Of Alfred P. Sloan*

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"The Dale Carnegie Management Seminar helped us think and work more creatively, more productively."

Mr. L.D. "Lee" Brennan
National Sales Manager, Snack Foods
Nabisco Foods, Inc.
East Hanover, New Jersey

"I had a definite reason for taking the Dale Carnegie Management Seminar. I wanted to become more effective in the art of managing other people and also in managing my own time and responsibilities. I felt anything that could help me perform my work better would help me enjoy it even more. And it has!

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"I was impressed with the idea that one good way to stimulate creative thinking is to encourage other people to express their thoughts freely, then listen more attentively when they do. When I slow down and listen more carefully, I'm more likely to hear a fresh idea or a new solution to an old problem. Now my people are coming back to me with more answers and solutions and fewer questions and problems. It's helped to increase our productivity and our sense of job satisfaction.

"I gained a better working knowledge of such management procedures as short-range and long-range planning, goal and objective setting, coordinating and delegating, up-to-date methods and techniques for effective time and money management. I also gained a better understanding of

the variety of controls, check-points and feedback systems I can use to monitor the progress of management plans and directives.

"As National Sales Manager of the Snack Foods Division here at Nabisco, the only way I can effectively manage the kind of responsibility this job entails is to delegate efficiently to a staff of competent people ... and to closely monitor the overall progress and results we achieve. The Seminar has assisted me in developing even more efficiency in delegating and has enabled us all to do a better job — for our company and for ourselves.

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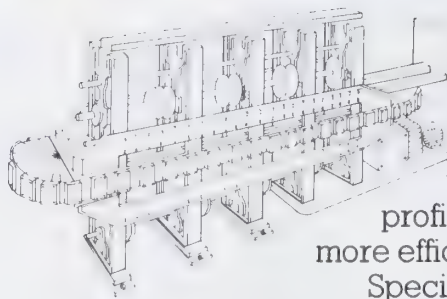
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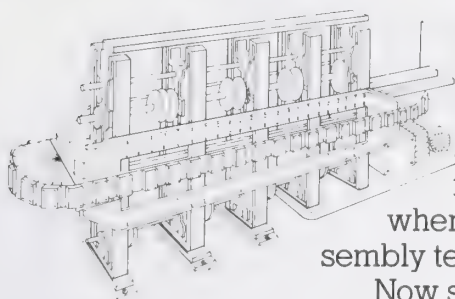
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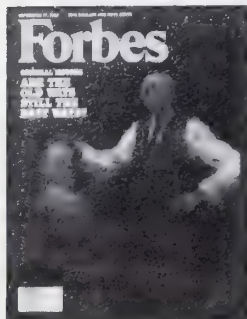
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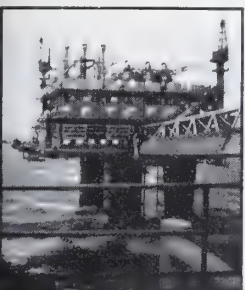
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Numbers, numbers—we've got more numbers

If you enjoy the information in the Forbes/Wilshire 5000 Review, there are some new items in this issue. On page 187, for example, we are including composite price/earnings multiples for both the Dow Jones industrial average and the 5000-stock Wilshire index. This number—now 9.3—is probably the best measure anywhere of a true "market" multiple. We are also adding regular stock performance data for the Forbes Sales 500. These big companies are clearly worth far more now than they were before last month's rally—14.3% more, to be precise.

At the bottom of page 188, you will find something really different. Associate Editor Steve Kichen recently wrote a story about Larry Tint and his efforts to quantify the buy-sell opinions of securities analysts (FORBES, June 7). We found the numbers fascinating, so Kichen worked with Tint's Wilshire colleagues Dale Stevens and Don Kinsey to add them to our regular report. These rankings tell you which industry sectors the analysts like and which they don't. The bottom-left graph on page 188 presents a composite of their views. As the sharp rise late last spring indicates, someone was getting optimistic well before the market turned up.

New term, new turn



Jill Clayburgh in *First Monday in October*

The next term of the U.S. Supreme Court, which gets under way next month, has a docket full of cases of particular interest to business people. The court could well be at a historic turning point, shifting away from the activist posture that so often distressed business litigants and toward a more restrained position business may well find more agreeable. If so, reports Allan Dodds Frank of our Washington Bureau, it will owe in large part to the presence on the bench of Justice Sandra Day O'Connor, who has helped push the court in a new (or is it old?) direction. See page 34.

Judicial philosophy aside, Justice O'Connor herself, it seems to us, is another example of nature following art. She was named to the highest court in the land last September. By that time, a pleasant film called *First Monday in October*, the plot of which (based on a 1978 play) turns on the naming of the first woman Supreme Court justice, was already shot, edited and released. Maybe there could be a sequel, "First Monday Part II," in which Justice O'Connor saves an innocent company from capital punishment.

Sheldon Zalaznick

Managing Editor

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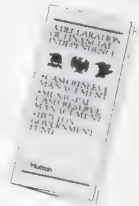
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The collective crystal ball

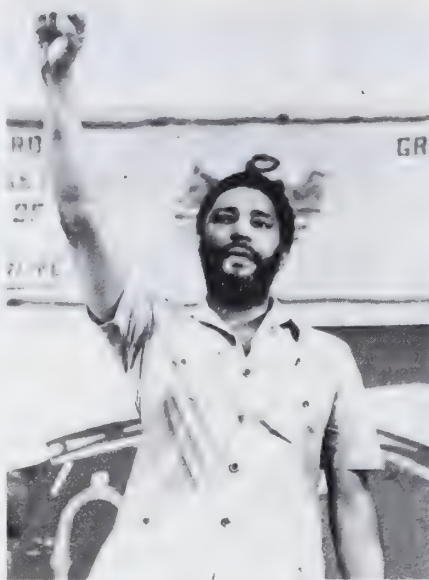
"If all the economists in the world were laid end to end," the old saying runs, "they would not reach a conclusion." The head of one major group of forecasters, however, has made up his mind. President Don Conlon of the 4,000-member National Association of Business Economists thinks recovery has started and that it will be faster than many thought. "I've been in this business a long time and I don't know of one recovery that was predicted to be fast," says Conlon, chief economist of the Capital Group, which manages \$12 billion in assets. His own association was sampled last month and thought an upturn was under way but would be sluggish. But this was before the wild surge in the stock market, which has encouraged Conlon to take a different stand. "With the significant drop in interest rates—the financial markets have done some spectacular things recently—the size of the recovery may exceed the group's expectations," he says.

Where it all goes

Where does the tax dollar go? Social Security payments take the biggest single bite—15.6 cents, according to a report by the Washington, D.C.-based Tax Foundation. Using 1980 federal, state and local government spending figures, the report ranks education a close second with 15 cents, national defense third with 14.2 cents. Social services and income maintenance take 13 cents and interest on general debt absorbs another 7.9 cents. A modest 2.3 cents goes for police, fire protection and prisons; the postal service gets 1.9 cents and sanitation 1.4 cents. And the rest? It is spent on items like roads, airport terminals, parks, recreation, sewers and the courts.

Caribbean comrades

Grenada, the newly independent and formerly British Caribbean island, is becoming more solidly oriented in two directions, northwestward to Fidel Castro's Cuba, northeastward to Moscow. The Soviet Union, for the first time, is shipping in a resident ambassador to the tiny island. Moscow also is providing aid for steel and flour purchases, and there is a party-to-party pact between the U.S.S.R.'s Communist Party and Grenada's



Grenada Prime Minister Maurice Bishop
An island in the eastern sun.

New Jewel Party. Lying between Barbados and Trinidad, not far from Venezuela, Grenada is a potential refueling stop on Castro's Cuba-Africa supply route, and Cubans have been building the island's new airport. All of which helps to explain why Grenada is missing from the list of candidates for Ronald Reagan's proposed aid program for the Caribbean basin.

Fighting the IRS

Can a taxpayer beat an IRS audit? Yes, says Capitol Hill's official watchdog, the General Accounting Office, in an analysis done for Congress' Joint Committee on Taxation. In 84% of cases studied where an IRS auditor found more taxes owed, an appeal resulted in reduction or elimination of the extra bite. Each year the IRS picks 2 million individual and corporate returns to be wrung out by a human auditor instead of a computer; in 73% of them the taxpayer is told to pay more. The GAO studied 577 cases that were appealed and found most of the victims pleased with the settlement but riled by the time it took (in some cases as long as four years). The taxpayer who goes to the U.S. Tax Court gets better treatment from the IRS appeals officer who first must review the case, the GAO found. The IRS recovered 26% to 35% of the extra taxes from appealers, 31% to 50% from those who did not go to court. The bad news is that the GAO found the IRS appeals process inconsistent

and the human element a big factor, so that a case could win in one office while an identical one could lose in another. The study urges more supervision and documentation to make things more uniform. And the IRS? It agrees it could use better management on appeals but denies the inconsistency charges.

How many new roofs?

Will the drop in interest rates help the flattened housing industry? Not yet, but it's a hopeful sign, says Michael Sumichrast, chief economist for the National Association of Home Builders. "It's too late for this year," he says, predicting only 1.07 million housing starts for 1982. (The National Association of Realtors is even gloomier, forecasting a dismal 1 million units.) For next year, Sumichrast sees a possible 1.3 million to 1.4 million starts—if the economy picks up and mortgage rates drop. To get that, he figures rates on conventional mortgages will have to drop to 12% or 12.5%, and the problem is that mortgages will be the last to fall even if the interest rate slide does continue.

The quick fix

A new kind of quick-fix medical facility, the "freestanding emergency clinic," could become a factor in the nation's \$100 billion annual hospital bill. Launched about nine years ago, there are now about 650, double the number of a year ago. Run by entrepreneurs or physicians, they are located in residential areas or shopping centers and generally are open for emergency cases 14 to 16 hours daily, 7 days a week. The staff usually includes a doctor, a nurse, a medical technician and a clerk. According to the Dallas-based 88-member National Association of Freestanding Emergency Clinics, a visit costs about \$45, compared with \$75 to \$85 at a hospital emergency room. Moreover, says Managing Director Michael Cripe, "You can have a 1-to-4-hour wait at an emergency room; freestanding clinics try to take no more than 15 minutes." The economic prognosis also looks good. Leasing a clinic costs \$45,000 a year plus equipment; building one runs \$400,000 to \$700,000. But the payout, Cripe says, usually starts within 14 months and can begin in 30 days. Corporations are starting to use them—Cripe says his members each have 20 to 60 firms as clients,

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Trends

and he expects another 300 freestanding clinics by the end of 1983. The big operators also are getting interested. Hospital Corp. of America is looking into the idea and Humana has started opening "extended-hour family practices" across the country.

Drugs to burn

The lethargy afflicting most of the economy doesn't seem to have touched one area—illicit drug traffic. During the first six months of this year, U.S. Customs agents seized 3¾ tons of cocaine, worth \$2.3 billion on the street, three times the amount intercepted during the same 1981 period. The agents also grabbed 1,153 tons of marijuana (worth \$1.7 billion at retail) and 250 pounds of heroin with a street value of \$1.6 billion, more than the heroin haul during all of 1981. The Customs Service hails these record hauls as tributes to the effectiveness of the Reagan Administration's antidrug program. Others, more cynical and perhaps more realis-

ed eavesdropper can note down the code and then charge off his own calls to the unsuspecting cardholder. To beat that, AT&T has been hooking up its Automated Calling Card Service (ACCS) that lets a card user establish his or her bona fides simply by giving the last four digits on the card. (The first ten are the holder's personal phone number.) Thus the cheater is left speechless. The ACCS operation (now two-thirds completed) is in addition to Bell's plan to make its touch-tone phone the universal instrument. All Bell pay phones are now touch-tone, as are more than 50% of the rest. With touch-tone, the eavesdropper is stymied because the user can punch in the vital number—unheard.

Give up, win back

Businessmen shouldn't get their hopes too high over "give-backs" and wage concessions by auto and trucking unions, warns labor relations expert Daniel Mitchell in a new Brookings Institution report. Fewer than 2 million workers have been affected by give-backs and if twice that number won no pay raises this year, the effect

fused to give up and sign an agreement with an industry running at half capacity and with 37% unemployment. The report urges the government to promote profit-sharing but sees little chance of that happening, given the Reagan Administration's hands-off position on wage decisions. As for the idea of some economists to ban long-term contracts with cost-of-living clauses, Mitchell says that would only increase the frequency of negotiations and the risk of strikes. Besides, he says, "it is not clear how such a ban would be enforced."

Family matters

The Securities & Exchange Commission has included a personal touch in its proposals to streamline the system of proxy regulations. One suggested rule change involves corporate dealings with relatives. Currently, any transaction over \$50,000 with a person living in the home of a corporation officer or director must be disclosed in the proxy statement. The SEC wants deals with any relative as far out on the family tree as first cousins to be noted in the proxy, regardless of where the relative lives.

Quis custodiat custodes?

One side effect of airline deregulation has been a drop in the reporting once required of the carriers, which the CAB hopes to cut by 60% before it folds up in 1984. Says Robin Caldwell, the CAB's information-management chief: "We felt a reduction in reporting was intended [by the law] because reporting was related to regulations which were cut." (A companion law, he adds, mandated a 25% cut in all paperwork by fiscal 1983.) The CAB has already chopped financial schedules and reports on fuel costs, traffic and accounting, and more are under review. "Some airlines would be a lot happier if we got rid of everything," Caldwell says. "Others think the federal government's job is to be a central data collection point." Surprisingly, the gadfly groups are not too upset so far. "Industry data was used more in the days when the airlines were regulated, to determine what was in the rate base," says Cornish Hitchcock, legal director of Ralph Nader's Aviation Consumer Action Project. He is still concerned with rules on items like baggage, "bumping," smoking and charters. When the CAB goes, who will oversee the remaining rules? Probably the Department of Transportation or the Federal Trade Commission.



*A Navy destroyer keeps watch over a trawlerful of contraband
Is the drug net getting tighter or is the flow getting bigger?*

tic, think the huge increase in seizures really reflects an enormous surge in the flow of illicit drugs into the U.S.

Ma Bell's mufflers

By next spring, Ma Bell will have in place a systemwide technique to foil at least one telephone scam, this one involving credit cards. Card customers must identify themselves by number when placing a call, and a sharp-

on 1982 wages would be a fraction of 1%, contends Mitchell, who teaches at U.C.L.A. Once things pick up, he says, unions will return to traditional patterns, citing the give-backs and win-backs that marked post-Korea labor bargaining in the late 1950s and early 1960s. Nor has labor stopped seeking higher wages, he says, noting that electrical workers this year got 25% to 28% increases over three years from GE and Westinghouse. Even the steel unions, he adds, re-



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Follow-Through

Fearsome forecast

More than a year ago, *FORBES* (Mar. 30, 1981) explored the financial time bomb in the thousands of lawsuits against manufacturers of proven and potential carcinogens like asbestos, tobacco, benzene and a host of other products. Insurance companies talked of judgments and settlements that could reach a horrendous \$100 billion or even \$125 billion.

Noting that the crushing and growing case load of product liability suits threatened to overwhelm the civil courts, a New York University law professor, Sheila Birnbaum, asked a question that is even more telling today: "Is it going to take a Johns-Manville going bankrupt for everyone to sit up and say we must do something about the system?"

Suing by the numbers

"The multimillion-dollar class action type of lawsuit may just be the juiciest thing that has ever happened to the U.S. legal profession," *FORBES* commented two years ago (Aug. 4, 1980), citing awards of \$18 million to \$310 million and legal fees for plaintiffs' lawyers that averaged close to \$200 an hour. *FORBES* attributed the increase in the number of class action and mass-disaster suits against big companies to an anti-big-business trend and the rise in consumerism.

"A class action suit is simply a suit brought on behalf of a group of people by one representative of the class," explains Harvard law professor Arthur Miller. Such litigation, he says, can pertain to "almost anything at all. There are natural situations where groups are affected: all the people who have been victims of discrimination by a particular employer, or people who have been victimized by a securities house. They have all been hurt in the same way."

Lately, however, the federal courts have put on the brakes. In one recent move against class action suits, for example, a federal appeals court has refused to uphold a "class" created by a lower court for the victims of the collapsing-balcony disaster at the Kansas City Hyatt Hotel. Another appeals court refused to continue a class suit involving users of the Dalkon Shield intrauterine device. Shareholder and securities suits will probably not be affected by the new trend, says Miller. "Such cases are less personal.

In many security or antitrust cases, the number of people is staggering, and you really get efficiency and economy by using the class." (The 16,500 asbestos-injury suits that Manville Corp. blamed for its bankruptcy filing have all been individual actions, principally because in cases of this nature there is a question of causation, which the courts prefer to have settled instance by instance.)

Still, some high-powered attorneys are not at all happy about the trend to block mass-disaster class suits. "Class actions helped clear the court calendar. They did a lot of things," says Melvin Belli, San Francisco's 75-year-old "king of torts." "The federal courts will squelch anything productive, unless they've thought of it."

But there seems no dearth of rich rewards for lawyers. This summer Belli obtained a \$17.5 million out-of-court settlement in a personal injury and wrongful death case from General Motors, and he soon will be going to trial in a \$20 million trampoline-injury suit against Stanford University. Airline disasters offer rich prizes, too, but class actions have never had a great role on the airstrip. "Generally, in air crashes, you prove liability once and then later have separate trials for damages," says Lee Kreindler of New York's Kreindler & Kreindler, a leading lawyer in such litigation. He has already settled 13 of his 19 cases in



Melvin Belli

The money is still out there.

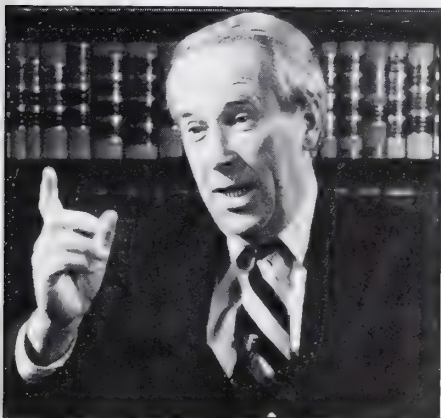
the DC-10 crash in Chicago, where scores of cases are still pending. His largest settlement to date was \$1,750,000. "But the really large cases have not been settled yet," he notes.

While many attorneys may be mourning the decline of mass-disaster class action suits, others feel that the complaints are premature. "Federal judges are grappling with the decision

of when a mass disaster becomes a class action," Harvard's Miller says. "I don't think the jury is back yet. We have a couple of preliminary votes. It will take a few years before we have a clearer picture."

The jumbo joust

Senator Henry (Scoop) Jackson's campaign to make the Air Force buy secondhand 747 jumbo jets as transports (*FORBES*, June 21) carried the day in the Senate, but he lost the war on the other side of Capitol Hill. Despite Pentagon arguments that the big Boeings couldn't carry such vital strike-force weapons as tanks, helicopters and big guns, Jackson and his friends voted to buy 50 of them. The House of Representatives and a conference committee, however, reversed that decision and authorized \$847.5 million to restart Lockheed's production lines for the giant C-5, a move



Senator Henry Jackson
One down, one to go.

that could mean 50 new aircraft worth \$8 billion. The Washington Democrat didn't lose everything for his home state's biggest employer. His confreres tossed him a consolation prize of three used 747s. They also urged a revived push for a long-grounded plan to refit airline 747s for military use, which could also provide another lift for Boeing. That program stalled out when the carriers and the Air Force couldn't agree on price.

So the 747 may be out, but Lockheed has a long runway to go. This vote only authorizes purchase; another fight will have to be made to appropriate the actual money. That faces fire on three fronts: from fans of McDonnell Douglas' planned C-17 transport; from the C-5 haters; and from let's-wait-a-whilers who want to cut any and all military spending. Lockheed is only halfway home, but halfway is a lot better than nowhere.

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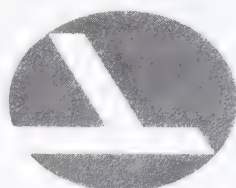
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Readers Say

Nuclear time bomb

SIR: Your editorial "About Nuclear Weapons" (*Fact and Comment*, Aug. 31) and the security where they're stored touched upon one of the most critical issues of the day.

I am extremely concerned that terrorists will get their hands on a nuclear weapon and, at a time of hair-trigger readiness on the part of the superpowers, start a nuclear Armageddon.

—Patrick J. Leahy (D-Vt.)

U.S. Senate

Washington, D.C.

How reassuring is this?

SIR: An item in Other Comments (Aug. 30) headlined "Unbelievable!" reported that a Department of Energy study had disclosed that small amounts of plutonium and uranium have "turned up missing" from DOE installations.

Inventory Differences (IDs) are simply the differences between the amount of material shown in the accounting records and the amount of material reported in the physical inventory. These differences are generally because of errors in estimating material that is held in unmeasurable form at the time of inventory. Inventory differences are not, in and of themselves, evidence of lost or stolen material.

DOE maintains a comprehensive physical security system to ensure that no nuclear material is removed.

—Robert C. Odle Jr.

Assistant Secretary for Congressional,

Intergovernmental

& Public Affairs,

Department of Energy

Washington, D.C.

Amoosing

SIR: Clare Luce says about that Clare Boothe Moose card (*Readers Say*, July 19): "I moose admit I was moosed amazed." If I had been her, I would have been: "Moosed amoosed."

—Dan Eigenbrode

Grantham, N.H.

How to subsidize farmers

SIR: Could you imagine no better solution to agriculture's condition ("Please come back, W.J. Bryan," Aug. 30) than to have the federal govern-

ment inventory productive land? Why enlarge the federal budget deficit with this expenditure and take land off the tax rolls? It is easier to inventory grain than land, and you would have the safety of a larger grain reserve.

We should simply set a minimum price that would provide a profit to American agriculture and keep additional inventories isolated from the market. Some legislators fear consumer protest. However, a recent Chase Econometrics study concludes a boost of net farm income by 20% would hike food prices only 1%.

—Edward A. Benson

Appleton, Minn.

SIR: A point of history: You're right that tight money hurt American farmers in the 1890s and led to the meteoric rise of William Jennings Bryan with his easy money nostrums. But the fundamental forces at work then are not too dissimilar from what is hurting farmers today, as you point out—overproduction.

U.S. grain output was growing because of new lands and new strains of seeds. Canada was opening up and Argentina, Australia and (would you believe?) Russia were also becoming major grain producers and exporters.

Result: It took more than 40 acres and a mule to make ends meet.

—William Hanna

New York, N.Y.



THE END OF THE CIRCUS SEASON

Farmers' love of Bryan wasn't shared by cartoonists who gloated over his defeats

Military waste

SIR: I was with an Air Force colonel who spent nine years in the Pentagon

as a weapons analyst. He told me about the structure of the different branches of the service.

Only the Air Force can have fixed-wing aircraft. So when the Army needs air support for ground troops they must depend on helicopters which are more expensive and less effective. It reminded me of your editorial "One Reform Our Military Badly Needs" (*Fact and Comment*, Mar. 29).

—George Pearson
Wichita, Kans.

Trap for the elderly

SIR: Your charge that reverse annuity mortgages "never caught on... it is a bad idea" ("Over the hills to the poorhouse," Aug. 16) is untrue. Our RAM demonstration in Marin County, Calif. has been so successful we are now expanding statewide.

Could we have fooled the Ford Foundation, The Federal Home Loan Bank Board, HUD, AARP, ABA, participating lenders and our homeowners?

—Don L. Ralya
Administrator,
San Francisco Development Fund
Reverse Annuity Mortgage Program
Corte Madera, Calif.

RAMs have yet to catch on in any significant way in most of the country. A top official of a bank that participates in Mr. Ralya's program points out the basic flaw of RAMs: "Everything's great if when the end of the annuity comes the homeowner is compliant and dies." If not? "Let's face it. These things can be like a suicide pact."—ED.

Effective drug fighters

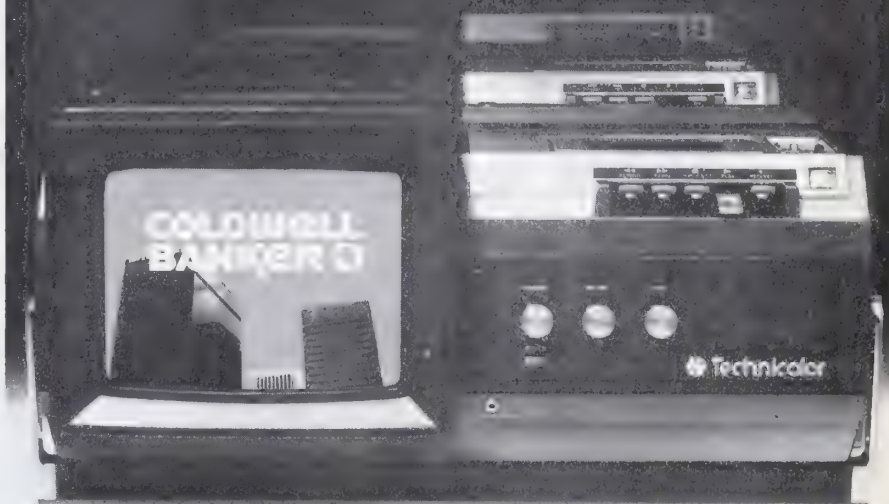
SIR: Re "U.S. Coast Guard—Saving Lives In Every Sense" (*Fact and Comment*, Aug. 30). While most people appreciate the search and rescue mission of the Coast Guard in times of nautical distress, their drug interdiction missions are far too neglected in the eyes of the public.

—Drew Lewis
Secretary of Transportation,
Washington, D.C.

SIR: How great that you understand the significance of what our people were doing and why they were doing it. It is not uncommon for us to get some pretty emotional complaints from people who don't understand.

—Adm. J.S. Gracey
Commandant of the U.S. Coast Guard,
Washington, D.C.

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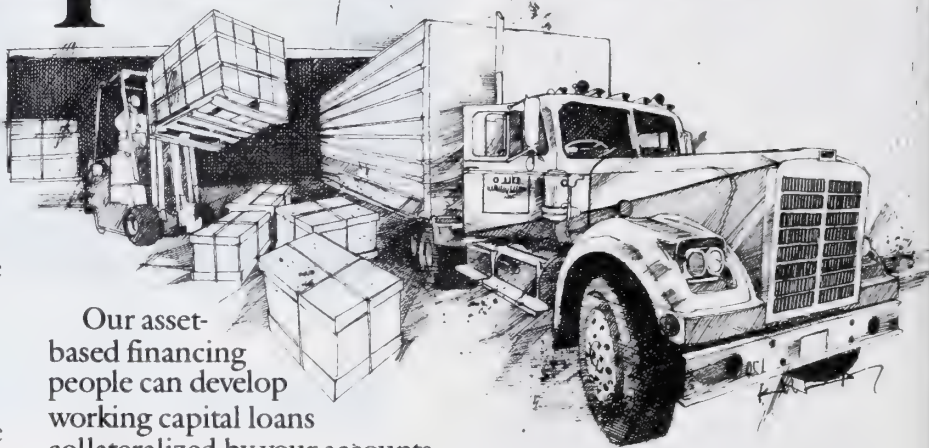
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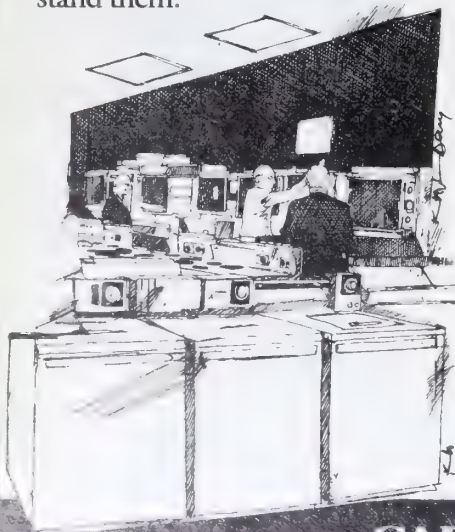
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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

BUT WHO'S GOING TO WASH THE DISHES?

If the immigration measure now passed by the Senate becomes law, there's little doubt it will largely end employment of aliens illegally here in the future. The bill makes the hiring of illegal aliens punishable by fines and up to six months in jail, and it requires employers to seek proof of residency from new workers.

Given our record unemployment rate—still climbing—and bitterness over ever-growing import competition, this bill will likely pass the House and soon be law. But how many unemployed are going to take over

the back-breaking picking of our berries and beans? How many are going to do the most menial tasks in our eateries and hostelryes? In short, who's going to wash the dirty dishes under conditions that often prevail in the tasks now done largely by illegal immigrants?

That this exploitation should cease is good. That illegal immigration should be brought under control is essential. But, like every other well-intentioned action, there will be a cost reflected in the increased price for berries and beans, beds and breakfasts.

THE ULTIMATE IN INVESTMENT/MANAGEMENT NUTS

Are those portfolio handlers and investment advisers who've sold down to present absurdly low levels, not only the obvious oils, but all other concerns with established, appreciable quantities of domestic oil reserves.

In view of the prevailing worldwide surplus, it's one thing to be bearish about the near future of alternative energy sources. But for anyone who can see beyond his

nose (how's that for phrase coining), there's no way *known* oil reserves will be worth less in the future than they were yesterday. Unless bankruptcy's the alternative, managements attempting to fire-sale such corporate assets should first be fired themselves.

For the Liquid, oil will have a liquidity once again as great or greater than cash.

IF YOU HAVE BUCKS IN MEXICO AND NEED 'EM PRONTO

You are indeed deep in bean soup. Panicking and trying to get your dollars out at any price—which means as a practical matter getting relatively no price—would be foolish.

It may take a while, a long while, before Mexico's back on its feet, but it will get there.

Its oil resources *are* vast; lower prices, proximity and necessity ensure a sizable market in the U.S. as well as the rest of this hemisphere, and Japan's needs are great. While the collapse of the peso will mean fer-

ment, Mexico's long tradition of government stability should prevail. Its industrial base is extensive, sound. It has many other natural resources. And a patient, industrious people.

Those who can afford to, can only gain by leaving their dollars "where is, as is."

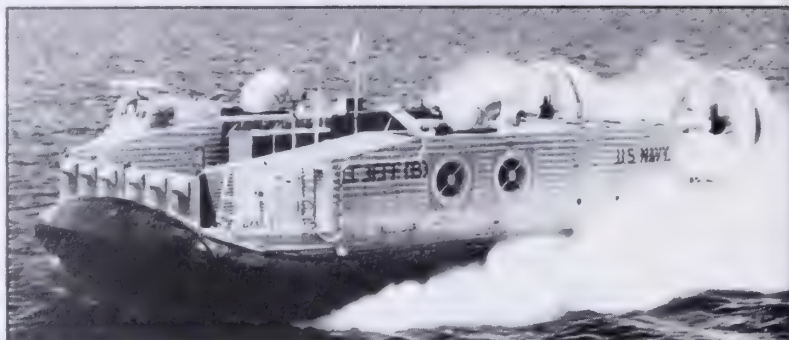
Those who can't afford to, really can't afford not to.

Thus, given no choice, it's not a bad choice. Mexico will come back. So, eventually, will your bucks.

GIVE OUR MARINES THE MEANS

and there's no beachhead they can't establish, no island they can't take.

Why all this talk about a Rapid Deployment Force when that's what the Marines, in essence, are? They've got the training, the tradition, the pride, the esprit. Give them such tools as air-cushion landing craft (right), more Harriers, "smart" antitank missiles, and they'll continue to be as lethally effective a force as the Israelis.



1940 AS SEEN FROM 1982

Over the Fourth of July weekend, 108 former students of Benton (Ky.) High School, all of whom had been at Benton in 1940, had a get-together. S. Rayburn Watkins, president of Associated Industries of Kentucky, was asked to do a bit of Then-and-Now-ing for his schoolmates, and he came up with some astonishing stuff:

"Social Security: It was just getting started during our high-school days. The first check ever issued to a recipient was a check to an Ida Mae Fuller in May 1940, for \$22.54.

"Tax collections for Social Security commenced in 1937. From then until 1950 the maximum tax was \$60 per person per year, with \$30 put up by the individual and \$30 by the employer.

"Today the maximum tax is \$4,341 per person, an increase of 7,234%. Despite the higher taxes, the system is now paying out \$17,000 more each minute of every hour of every day than it takes in.

"Price levels in 1940 were about the same as in 1820; 120 years with no net inflation. Federal budgets were balanced most of the time during this period.

"Unemployment in 1940 was still at 15%, after eight years of the New Deal. At that time the statistics mostly covered male workers who

were heads of families and principal income producers. If women and minorities had been as big a factor in the work force as at present, the figure would have been substantially higher. Using today's criteria, it probably would have been in excess of 20%.

"Stock Market: The Dow Jones stock market average ended June 1940, shortly after graduation, at the 121.87 level. This was down from a peak of 153 earlier in the year. The market first crossed the 100 level in January of 1906. The 1929 peak was 381.17, a level not reached again until 1954. The market hit its depression bottom in July 1932 at 41.22.

"The market nearly reached the 1000 level when it hit 995 in 1966. Subsequent peaks were 1052 in 1973; 1015 in 1976, and 1000 in 1980. The market closed June 30, 1982 at 812.21.

"Federal Spending: The cost of the food stamp program alone in the 1982 federal budget is larger than

total spending for *all* programs in 1940. That is \$10.1 billion.

"How to feel old:

"The first nylon stockings were sold in 1939.

"When most of us entered high school, a medium-priced Chevrolet, Ford or Plymouth two-door sedan could be bought new between \$600 and \$700.

"There are several grandchildren of members of the Classes of 1939 to 1941 who are older than we were when we graduated.

"Problems Then and Now:

"Today, if all earnings and income in excess of \$50,000 were completely confiscated from all persons, it would raise enough to run the federal bureaucracy less than a week!

"Government today costs more than food, clothing and shelter combined.

"Seventy million taxpayers are supporting 81 million who pay no taxes."

"SOUL" IS A MOOD AS WELL AS A FOOD

A while ago FORBES—along with *Motor Trend*—was blasted in *Car Collector* and *Car Classics* because we both questioned prices for vintage four-wheelers:

"In 1974 FORBES warned against getting 'burned in the latest speculative craze' of getting an 'old' car, and they produced a table of the value of the hottest cars on the market with their projected 1976-77 estimated prices. The gist of the story was that there was no way that these projected prices were going to happen.

"A quick look at that list will tell you that a few of the cars listed have not made their 1976-77 estimate [in] 1980. But not one of them has dropped below their 1973-74 price, and many of them have far exceeded the esti-

mates. So much for the prognostication ability of FORBES.

"All in all, both FORBES and *Motor Trend* have a very poor perception of what makes the collector car market tick. There is an element that they cannot chart, graph or analyze. The old car market has soul."

You know, they've got a point—a good point. It remains a fact that emotion, feeling is more often a more powerful element than a balance sheet in investment decisions, CEO conclusions—and personal spending.

Like the "green thumb" reference to successful gardeners, those with what's commonly referred to as having "a feel" for product, market, thing are the ones who succeed beyond the norm.

EVERYBODY'S ENTITLED TO ONE WALTER MITTY MOMENT

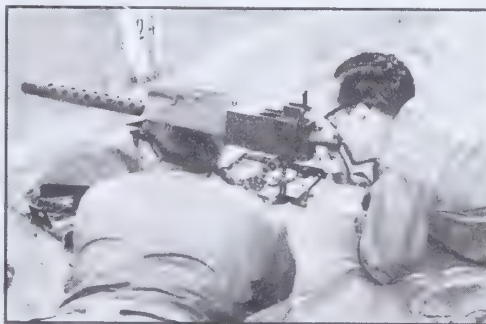
All of us fantasize about having one of those perfect Walter Mitty moments where we coolly, triumphantly rise to the occasion, leaving all around struck wondrous by wonderful us. Maybe some have a few such in a lifetime. Everybody should have at least one. This—literally—is a picture of mine.

It's ritual for New Jersey gubernatorial candidates to visit their state's National Guard during summer training. I was it for the Republicans, having won a primary fight against a fellow state senator who was then captain of one of the Guard units visited at Camp Drum, N.Y.

It was known that I'd been a machine gun sergeant in World War II (guess who spread the word) and, while watching groups at target practice with various weapons, I was invited to fire one again. Reaction: consternation. Refusal was

impossible, though I was 12 years out of practice.

The hardest thing to do with a 30-caliber Browning machine gun is to squeeze off a single shot, and the only thing harder is to have that single shot hit the target, never mind the bull's-eye. With machine guns, you see, it's the swift, all-out rain of bullets that's their thing. Since I feared looking even more foolish by being scoreless with a belt-full (never mind the danger to any and everybody around), I "casually" volunteered to squeeze off just one.



In 1957, testing a WWII talent

Guess what? A single shot. A bull's-eye. With Danny Kaye-like aplomb, I rose amid a shower of flashbulbs and congratulations and modestly waved it off as really nothing at all.

But, for me, it's always been my only Walter Mitty moment.

P.S. I was nosed out in the election by a landslide.

AS SOON AS SOMEONE SAYS

"I'm only kidding," he usually isn't.

THOSE WHO SAY

"What can I say?" usually then do—interminably.

THIS BANKING CRISIS WON'T BE OUR LAST IF...

By M.S. Forbes Jr.

The recent meeting of the International Monetary Fund focused on boosting that agency's kitty to rescue insolvent borrowers like Mexico and thereby prevent a collapse of the world banking system. This is obviously of vital importance, but one hopes that policymakers—specifically American policymakers, since the U.S. would have to take the lead to do the job—will take a moment or two in the months ahead to consider why the world has come so close to the precipice and what should be done to prevent such a situation from recurring.

Many observers have responded to the crisis by going down the long list of problem countries and ticking off the particular blunders of each. They also use all sorts of unflattering adjectives to describe the commercial banks that blithely underwrote so much of this nonsense.

True enough, but here is a case where the cliché about trees and forests holds true.

It strains credulity to believe that in the past dozen years national

leaders around the world suddenly became more incompetent, more irresponsible in economic policy-making than their predecessors. There is more to our woes than that. Even that paragon of growth, Japan, is in serious difficulty.

What then is the root cause for so many getting into so much trouble?

A very important factor is the environment, the institutional arrangements (or lack of them) under which we now operate.

Just imagine what would happen to our standard of living if each state in the Union had its own currency, all free to fluctuate daily against each other, and its own rules about interstate commerce. What's true on the domestic level has validity on the international scene as well.

In the 19th century, for example, we all benefited from the stability of the British-operated international gold standard. After World War II, we had the Bretton Woods monetary system, the so-called gold-exchange standard, and a successful U.S.-led commitment to easing tariffs and trade restrictions.

But we haven't had an effective

monetary system since 1968, when we short-circuited the gold feature of Bretton Woods, and postwar free-trade policies are starting to unravel. Without such a monetary system, policymakers really have no reliable guide to whether they're printing too much, too little or just the right amount of money. (Under Bretton Woods, an attack on a country's currency in the exchange markets was the signal that economic policy had to be changed.)

Most government officials have yet to realize that the nonsystem we've had for the past dozen years has played no small part in putting us where we are today.

The real danger is not the imminent collapse of financial institutions. Everyone is determined to prevent a disaster à la 1931. Rather it is that, when the fire fighting is done and economies show signs of recoveries next year, we'll be lulled into thinking that all is on the mend and no fundamental institutional changes need be made.

In that case, the respite will be brief; we'll only be setting ourselves up for another frightful crisis.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.—MSF

Who's "Chicken"?

Do you remember the scene from *Rebel Without a Chevy* where Sal Mineo and James Dean try to prove who is a bigger man by driving their junk cars over a cliff? The idea was that the last man to jump from his car is the winner. Remember the look on James Dean's face when he learned that he was going to be the winner by virtue of a pants cuff that had tangled with the brake pedal? Lots of U.S. investors who have been sitting on gold, silver and real estate investments for the past two years, while waiting for the Fed to reflate their sagging prices, know that feeling too.

—John Rutledge, *Claremont Economics Institute Newsletter*

Two for One

Once my attorney Frank Raichle was cross-examining a key witness, a lawyer who was trying to place me at a certain location by virtue of a luncheon he'd had with a certain client. It turned out that this lawyer had charged the client for the time of the lunch and the client had also picked up the luncheon check. This sounds a little greedy, and Raichle brought the point out beautifully on cross-examination—whereupon the judge, thinking he could one-up Raichle, leaned down and said, "Now, Mr. Raichle, let's be frank. Haven't you done the same thing?" Raichle looked up and quipped, "How do you think I knew to ask the question?" The jury roared. Would that the bar as a whole had a fraction of Raichle's wit.

—by Roy M. Cohn, *How To Stand Up For Your Rights and Win!*

Babes in the Python

Between 1946 and 1964, 76 million babies were born in the United States, "the biggest generation in history," according to Landon Y. Jones, an authority on the Baby Boom. Demographers have compared the disruptive passage of Baby Boomers through society to "the pig in the python," thus describing the painful changes they have wrought on schools, colleges, jobs, housing, and social mores. Jones says the pig in the python metaphor "hardly does justice to the violence and disruption felt along the way." Advertising executive Jerry Della Fe-

mina agrees. The Baby Boom generation, he says, is "the biggest single factor in anyone's marketing calculations. They are the people who make or break products."

—Robert Love, *Washington Journalism Review*

Malaria & High Rates

It struck me that this task force [Democratic Task Force on high interest rates, Senate Banking Committee] was a little like mosquitoes investigating the cause of malaria.

—James Balog of Drexel Burnham Lambert, commenting on his testimony before the task force

Ecumenical Mayor

[New York Mayor Ed] Koch attended a large meeting of middle-class Irish and Italian constituents at a Roman Catholic high school in Queens where the program called for putting his administration "on trial." The Mayor asked the priest on the dais if he could have two minutes for his opening remarks. The priest said he could have one minute. Hearing this, Koch turned on his heel and stalked out. A reporter later asked the Mayor how he dared to insult an audience of more than 1,000 Catholics in this way. "You



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"You'd never get me up in one of those things."

don't treat me with respect, I walk out," he replied. "They've got a kangaroo court in there and I don't happen to be a kangaroo."

And then there was the meeting at a local synagogue at which Mayor Koch was asked if he could think of any truly great world statesman in power today. "Anwar el-Sadat," answered Koch. The audience booed. "Aw, shut up," said the Mayor. He then went on to remark that anyone who might be asked to name three of the world's top leaders would have to mention the Egyptian President and probably would not be able to think of the other two.

—by William H. Honan, *New York Times Magazine*

I should not really object to dying if it were not followed by death.

—Thomas Nagel, *Mortal Questions*

Do Unto Hawaii

In 1873, as the U.S. debated annexation [of Hawaii], Mark Twain wrote:

"We must annex those people. We can afflict them with our wise and beneficent governments. We can introduce the novelty of thieves, all the way up from streetcar pickpockets to municipal robbers and government defaulters, and show them how amusing it is to arrest them and try them and then turn them loose—some for cash and some for 'political influence.' We can make them ashamed of their simple and primitive justice. . . . We can furnish them some Jay Goulds who will do away with their old-time notion that stealing is not respectable. . . . We can give them lectures! I will go myself. We can make that little bunch of sleepy islands the hottest corner on earth, and array it in the moral splendor of our high and holy civilization. Annexation is what the poor islanders need. 'Shall we to men benighted, the lamp of life deny?'"

—*American Heritage*

Spreading It Thick

Mitchell Hepburn (at a farm meeting, speaking from a manure spreader): "This is the first time in my life that I have spoken from a Tory platform."

Heckler: "Throw her in high gear, Mitch, she's never had a bigger load on."

—*The Book of Insults*, Nancy McPhee



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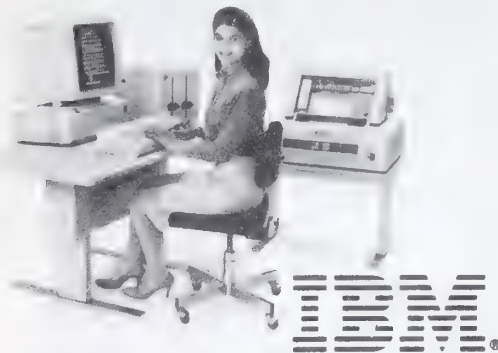
There's More to the Displaywriter Than Meets the Eye. Our large screen isn't the only big news from IBM. Now the Displaywriter has Automatic Footnoting. And Automatic Outlining. And a feature called Spelling Assist that gives you a list of likely choices to replace a misspelled word.

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Not all of today's entrepreneurs are here in Silicon Valley.

If we'd been doing our work on voice recognition in Silicon Valley, perhaps you'd think of us more as entrepreneurs.

Because voice recognition—teaching computers to tell one person's voice from another—is an exciting new technology.

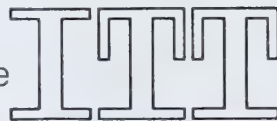
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The drop in consumer rates won't be dramatic

CONSUMER RATES—COMING UNSTUCK AT LAST

A DECLINE IN CONSUMER LOAN RATES, much needed and long awaited, is at hand. While other rates have been dropping, consumer installment rates have not budged at all.

BUT NOW THERE ARE TWO REASONS TO EXPECT a drop soon for the consumer. First, the Fed continues to pump money into the weak economy. The nation's money supply grew by a substantial \$1.5 billion the week ending Aug. 25. But the main reason is a slackening of demand for business loans. Commercial and industrial loans at the nation's major banks dropped by more than \$1 billion the same week.

Don't expect the drop in consumer rates to be dramatic. Worried about losses, bankers are trying to make up wherever they can. Even so, competition in the highly profitable consumer loan market will prompt banks to trim their consumer rates by at least a point or two.

Mortgage rates are already declining in certain sections of the country. On average, a conventional mortgage can be had for 16%. That's still too high to give a big boost to housing, but a necessary first step—better than the 17.5% quoted home buyers only a few weeks ago. More downward pressure: the government's recent reduction of the ceiling on both VA and FHA mortgages by a percentage point, to 14%.

Savvy treasurers are borrowing well below the posted prime

FURTHER DECLINES IN BUSINESS loan rates are not in the cards for the next few weeks, because the Fed has done enough for now. But the slide will resume. The prime now stands at 13.5%. That's about 3.8% higher than the rate on 90-day commercial paper. The normal spread is about 2%, nearly half the existing one. So, there seems ample room for a full 1% drop or more in the prime.

Remember, the economy doesn't determine the prime, bankers do. Since so many other floating-rate loans are tied to the prime, bankers are always reluctant to lower it. That also explains why the prime is rapidly losing its importance. Although the posted prime may stay up around 13.5%, some savvy corporate treasurers are now cutting deals well below that figure—at rates of 12% and even 11%.

A strong, sustainable recovery has yet to begin. So, business loan demand remains flat, and the Treasury can take down all the money it needs without pushing rates up.

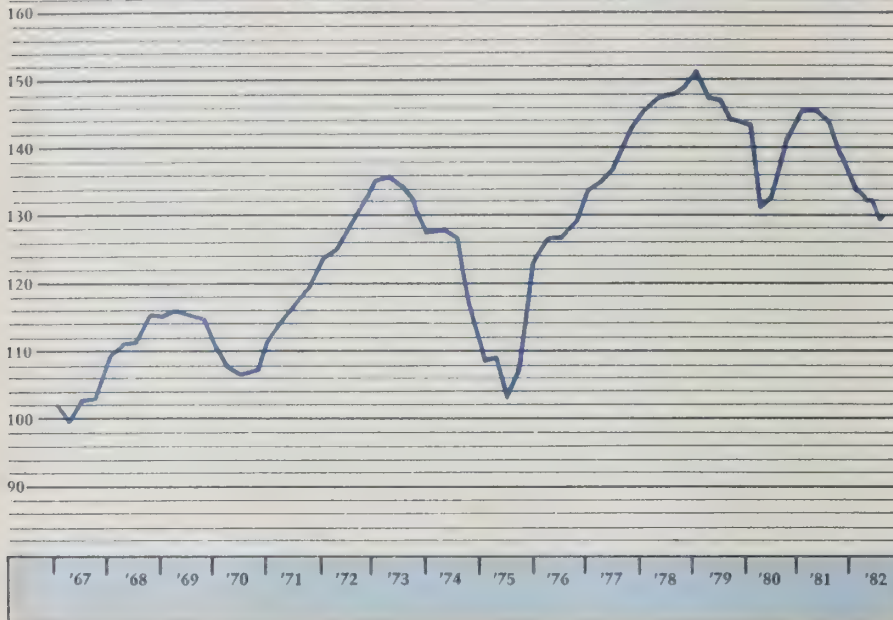
The "flight to quality" continues

ANXIOUS ABOUT THE HEALTH OF THE FINANCIAL SYSTEM, investors continue to show a "flight to quality." That applies not only to Treasury debt but to top-notch corporate paper, which is once again in very short supply. Indeed, something resembling a mini buying panic now seems to be building for high quality paper.

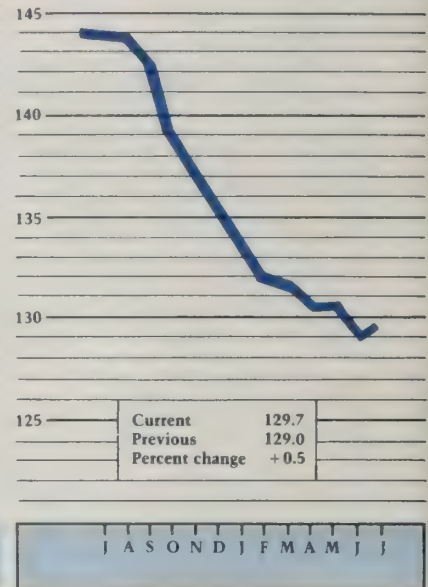
The thing to remember is this: The decline in interest rates and the accompanying rally in the stock market were more the product of a declining loan demand than of a change in policy by the Fed. In short, rates declined because the economy is weak. Since March the index of leading economic indicators was up just 3.8%, well under the postwar average of 5.5%. Sustaining that, and building on it, depends on how fast and far rates fall, especially the rates on consumer loans.

The Forbes Index

Forbes Index



12-month close-up



Onward and upward—again. The Forbes Index has posted its second consecutive gain. After three months of decreases, manufacturing orders vaulted 4%. There was also good news on the inflation front: The Consumer Price Index posted a meager 0.6% rise, against gains of 1% and 1.2% in May and June. Prices in service-related industries, meanwhile, rose by only 0.6%, compared with

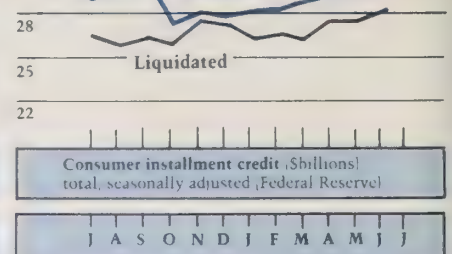
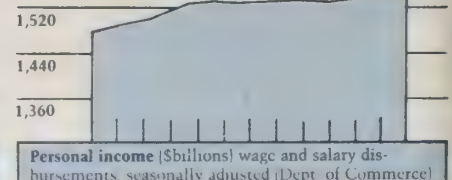
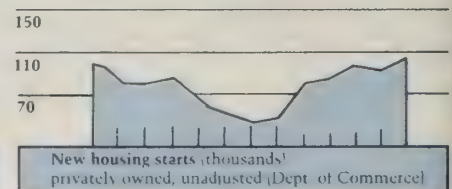
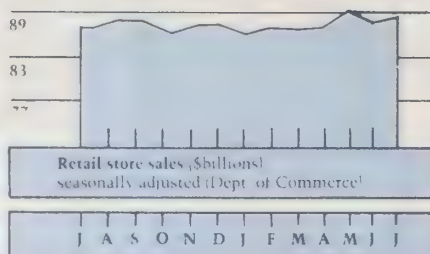
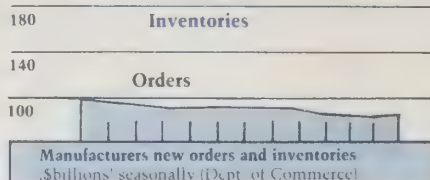
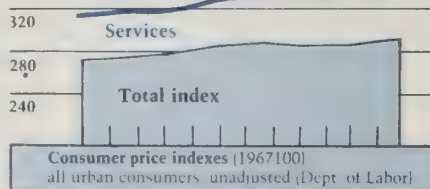
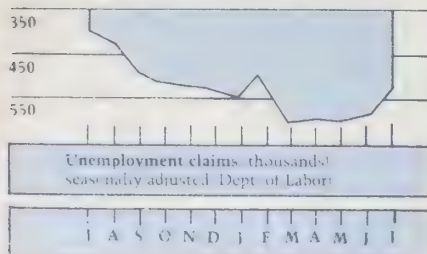
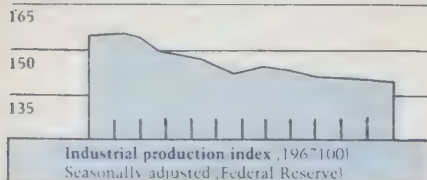
a 0.9% jump during the previous reporting period.

But not all the news was good. Manufacturers are still trimming inventories. That means the fuel for the recovery will have to be provided, at least initially, by consumers. They should step up their spending when the recent decline in interest rates spreads to installment loans, which have held steady at 18% or higher.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.





Promises made, promises kept.

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Remember the jet that was supposed to fly 4000 nautical miles nonstop at Mach .80? Now that it's the Falcon 200 performance comparison

	Initial announcement in June, 1981	FAA certification July 6, 1982
Range ¹	2450 nm	2600 nm
Weight (empty) ²	5050 lb ²	5200 lb ³
Takeoff speed (BFL)	5250 ft	4650 ft
Takeoff noise (dB)	85.5	83.9

¹Passengers, crew, baggage and NBAA VFR reserves.
²Sea level, 76° F.
³Sea level, 80° F.

flying, we find it's 25% shorter in range, 10% slower in speed and 7,900 lb overweight. Those were promises made, but not promises kept.

The newest Falcon makes the point again

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Ever notice how the competition talks about flying from Los Angeles to New York, and not the other way around? Maybe that's because they haven't designed and certified a plane that can span the continent westbound, against prevailing headwinds.

Except for airplanes in the Falcon 50 class, the Falcon 200 is the only business jet

capable of flying from New York to Los Angeles nonstop, against the 85% probability headwinds the airlines use for flight planning, with eight passengers, baggage, and NBAA VFR reserves.

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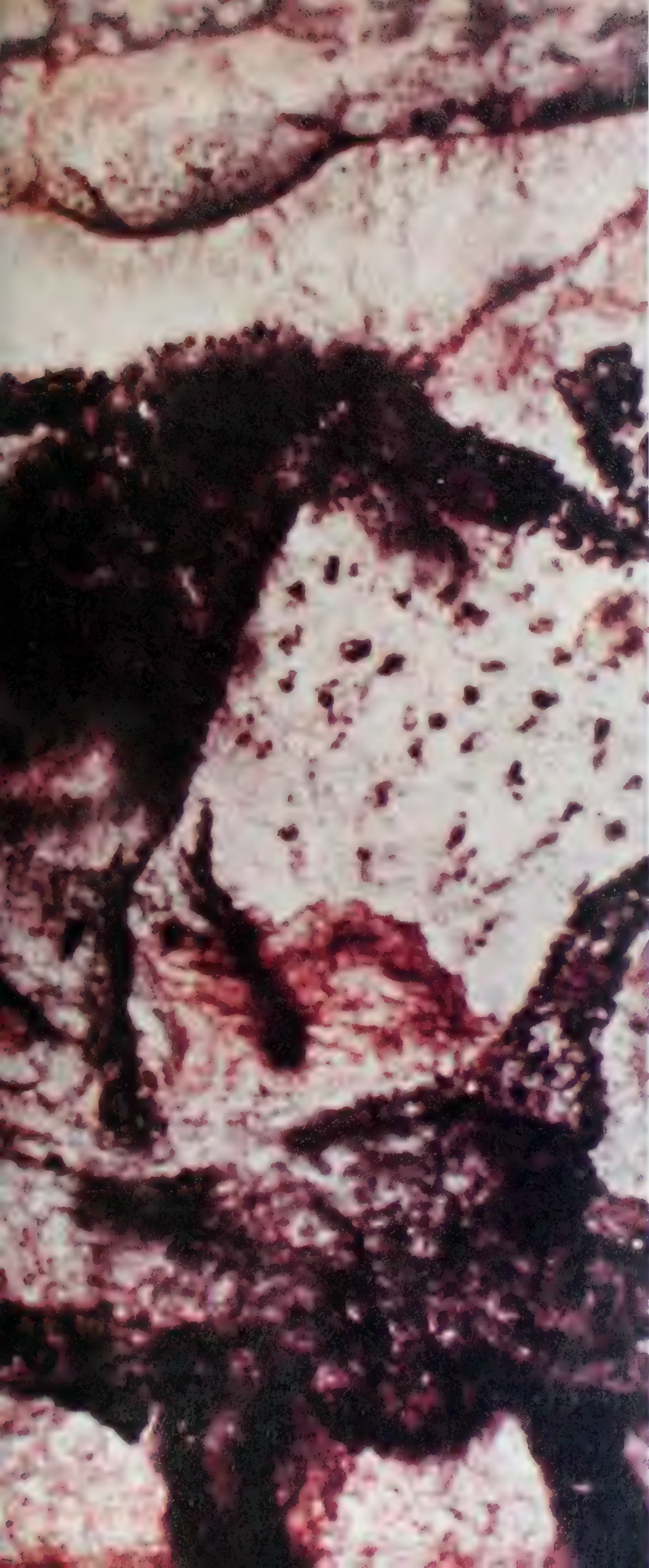
Once we could spend time with a new piece of information. We could think about it, then decide what to make of it.

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Recently TRW designed a system that processes trillions of bits of





information a day (about half the volume of the Library of Congress). This babble of raw data is instantly cross-referenced and made available to thousands of users and decision-makers.

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In an age when information is easy to generate, the trick is to weed out the irrelevant. That way we'll have the information we need. And, we'll have time left over to do something with it.

TRW

A Company Called TRW

Regular, 1 mg. "tar," 0.2 mg. nicotine
av. per cigarette, FTC Report Dec. '91

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Warning: The Surgeon General Has Determined
That Cigarette Smoking Is Dangerous to Your Health.

Of course coal is no longer king. But these days its crown is far less tarnished than those of other energy industries.

Dark victory

By Carol E. Curtis

YOU WOULD THINK THE GLOOM and doom that pervade the oil and gas industries would surely extend to coal. After all, sales on the spot market—a barometer of short-term activity—are down to almost zero. Demand is so weak that a few utilities are refusing to accept contract deliveries. And the steel companies, which consumed 10% of the nation's coal output, are depressed and likely to remain so.

Still, some coal executives are smiling. Because of a 72-day strike, 1981 was a terrible year, so big gains in 1982 earnings were a certainty. But more is under way than just a sluggish recovery. Eastern Gas & Fuel and North American Coal, for example, just might have record years, while Westmoreland Coal posted its strongest performance since 1977. "A number of producers are doing better than they have since the [Arab oil] embargo," says Marc Cohen, analyst at Kidder, Peabody & Co.

The winners, however, are almost exclusively big companies. Their coal production is for the

most part locked into long-term contracts at stable prices—often a respectable \$35 per ton. Moreover, the coal they cannot sell to utilities is going overseas: Foreign deliveries this year are expected to total 105 million tons, up from 54 million a short five years ago.

"The industry has been producing like gangbusters," says Tony Anthony of the National Coal Association. While coal production nationally has been up some 11% this year, Anthony is talking mainly about productivity, where the gains for some

companies are more like 15%. "If your coal is under long-term contract and you can improve your productivity, you also improve your bottom line," he says.

Those gains stem from several factors. To begin with, the labor problems that have long dogged deep-coal production in the East have been absent this year. Companies are working harder to improve labor relations, and miners simply can't afford to be laid off.

Producers are also enjoying the benefits of improved techniques. Eastern Gas & Fuel, for example, recently expanded its long wall mining operations. The company now produces 28% of its tonnage in this cost-saving way, by shearing coal off an extended mine face. Transportation costs may eventually come down as well—if Congress passes a measure that would encourage coal-slurry pipelines.

Coal companies are getting better at judging their markets, too. Last year, Westmoreland closed marginally profitable mines that were producing coal for steelmaking and put greater emphasis on high-quality Appalachian coal for utilities. It also took on VEBA, A.G., a prosperous West German partner, which plans to export coal to Germany's largest utility.

Despite all this, coal's relative success in this recession has gone unnoticed. That is largely because nearly half the industry's largest producers are oil companies, which bury coal operations in corporate reporting. Still, many oil companies are downright delighted to be mining coal today. "Our volume has increased each year," says James Randolph, president of Kerr-McGee's coal subsidiary.

Curious, isn't it, that when nuclear power appears dead, when oil and gas are hobbled by oversupply, sooty, unglamorous coal is probably the healthiest segment of the energy industry. ■



Entering a coal mine in Pennsylvania
High productivity is shoring up profits.

"I've got guts and I'm willing to take some risks," says Tiger International's Wayne Hoffman. That's putting it rather mildly.

The gunfighters

By John Merwin

THERE'S A LOT OF GHOULISH interest in this company right now," complains Tiger International Chairman Wayne Hoffman. Hoffman says he has had it up to his silvery hair with those who lately have been measuring Tiger for a coffin. Not long ago two securities analysts mentioned the words Chapter 11. "I've had my lawyers looking into

this," Hoffman says, his voice rising.

Clearly Hoffman is touchy-touchy on the subject of Tiger's performance, which of late has been simply dismal. The air, truck and rail freight company, with 1981 sales of \$1.7 billion, is highly leveraged and capital intensive, and for two years now has been crushed by high interest rates and worldwide recession. The squeeze has been exacerbated by transportation deregulation and a string of costly ac-

quisitions and expansions that seemed to take place just before their respective markets collapsed.

But, of course, leverage works both ways. Interest rates are down already. The economy is showing a few flickers. "I've got guts and I'm willing to gamble and I'm willing to take some risks," says Hoffman spiritedly. "We're gunfighters. Don't compare us to an IBM or some conservative company. Now it's a billion-seven, and by fleshing out our subsidiaries, we're going to be a \$4 billion or a \$5 billion company."

It could be, that is, if Hoffman gets the chance to carry on. But Saul Steinberg's Reliance Group already owns 23% of Tiger and the New York financier has been leveling a drumfire of criticism at Hoffman's stewardship. A Steinberg bid for control would be ominous for Hoffman with Tiger's stock so low.

And the company's recent earnings performance does nothing to help current management.

In the last four quarters, Tiger has had \$74 million in losses. And earlier this year it slipped into negative cash flow when its star subsidiary, North American Car, underwent a stunning

Don't buy

While Tiger International struggles, barely 400 miles away the Harper Group, an airfreight forwarder, is awash in cash and healthy earnings reports. Sitting in his modest San Francisco office, Harper Chairman John Robinson smiles the smile of a man with no airplanes, no trucks, no long-term debt and no worries. He speaks with a self-assurance born of having played deregulation deftly at his modest \$200 million (sales) airfreight forwarder, which has 1½ years' earnings in the bank.

"If it floats, if it flies or if it has wheels, don't buy it," he says. "If you have an airplane, you're stuck on a route structure. If another guy buys a bunch of airplanes, how can you protect yourself?" Trucks? "Every time we put a yardstick on a trucking company's P&L, we come up with a minus. But if you don't own the trucking company and you don't like the service, all you've got to do is switch companies."

Unlike Tiger International, Robinson's company is an airfreight forwarder, meaning that it does not bear the risk of owning the planes, but merely rents cargo space from those who do. Think of Harper Group as a travel agent.

Instead of investing millions in aircraft and trucks, export specialist Robinson poured Harper's earnings



Harper's John Robinson

into computers, communications gear and freight centers. Why? Because he sees airfreight principally as a service business, not as Tiger's vision of the capital-intensive transportation empire. "I'm running an information system," Robinson emphasizes, his hand sweeping across a data processing equipment-filled room that could pass for the back office of a stockbrokerage house. "Freight movement is a secondary part of it, the easy part," he continues. "The paperwork is the difficult part. I want to control the cargo—the how, why, when and where—and let the airlines handle transportation."

Does it work? Harper's earnings, bolstered by both ocean and airfreight exporting, have risen smoothly through the last decade from 29 cents a share in 1973 to \$2.58 last year. This year's first six months have flattened at \$1.22 a share, not bad considering worldwide recession, a strong dollar and crashing earnings throughout the airfreight industry.

Robinson, a Spartan type who rises each morning at 4:30 for calisthenics and jogging, has piled \$17 million in Harper's bank account. What is he intending to do with it? Make it an even bigger pile, he says. "Sometimes businesses think they have to spend cash. Why not keep it?"—J.M.

reversal. Tiger acquired North American a decade ago, and until now the Chicago-based owner of 51,000 railcars had countered the up-and-down airfreight business of Tiger's Flying Tiger Line.

Only three years ago, railcars were in such tight supply that North American had 99% of its cars leased out. Sensing a killing, it started ordering more. Predictably, so did everybody else. Now the market is flooded with rolling stock, and 7,500 North American cars are in storage, with thousands more scheduled to come off lease in the next 12 months and newly ordered cars continuing to roll in—80 per month through December. That's when North American finally will have the spigot turned off.

Tiger's two major acquisitions of the last several years, Seaboard World Airlines and Hall's Motor Transit, have had similar timing problems.

Overall, in pursuit of its grand design to become the nation's leading cargo conglomerate, in the last 2½ years Tiger has poured more than \$800 million into capital expenditures, most of which are losing money. But that spending produces few operational efficiencies because the businesses are basically independent of one another. Plus, Tiger's \$1.7 billion in long-term debt and debt-to-equity ratio of 4-to-1 make life difficult in a fast-changing deregulated marketplace.

To its credit, however, Tiger recently responded to loss of its biggest airfreight customer, UPS, which previously furnished 25% of Tiger's domestic volume. Under deregulation UPS acquired its own aircraft. Having no real choice, Tiger spent \$30 million setting up a sales force and truck fleet to gather airfreight door-to-door. While some competitors scoff at Tiger's chances in the "retail" end of airfreight, Tiger President Tom Grojean claims the lost UPS volume has already been replaced.

It may take far more than that, though. For example, Flying Tiger Line, 55% of Tiger International's revenue, is losing money in two of its three markets—the U.S. and the North Atlantic (it is profitable in the Pacific). "Airline pricing is very leveraged," replies Tom Grojean. "If we can get a 15% rate increase, we can make a profit."

Like Hoffman, Grojean is proud of having built Tiger into the largest all-cargo air carrier in the world. "When the book is finally written," he says, "I think it will be a highly successful story." Something of a hair-raiser along the way. ■

Tenneco has been ignoring Wall Street's suggestions for years . . . thank goodness.

The value of free advice

By Subrata N. Chakravarty

IF THE CHIEF EXECUTIVES of \$15.5 billion (sales) Tenneco had acted on all the well-meaning advice they received over the years, there would be no company left. There's no future in the oil and gas business, they were told in the years before the OPEC oil crisis. Stick to the gas pipeline and automotive parts. After 1973 it was: Concentrate on oil and gas. And always: Get rid of Newport News Shipbuilding. It's a dog.

Through all the drumfire of advice, James Ketelsen and his predecessors at Tenneco's helm have plugged away at a conglomerate strategy. It has shown impressive results. Tenneco's 1981 earnings of \$813 million hit a record high for the 11th year in a row. In the second quarter of 1982, when most companies in the energy industry continued to suffer declines in

earnings, Tenneco's earnings from continuing operations were up 14%.

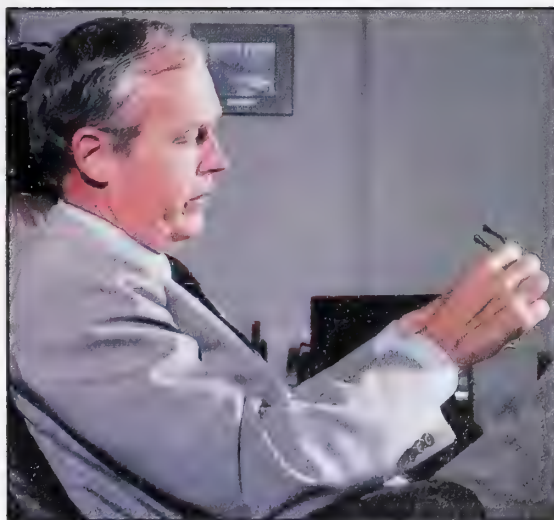
But Wall Street couldn't care less, even in this bull market. Along with the rest of the energy stocks, Tenneco shares trade for just 5 times earnings.

Tenneco is a conglomerate in businesses ranging from energy and automotive parts to shipbuilding and insurance. Conglomerates are out of favor and Tenneco's return on equity is merely a respectable 16.9%.

Ketelsen believes that Tenneco's diversification has provided an essential balance over the years. It's hard to quarrel with that. In the early 1970s, when oil and gas weren't doing well, steady earnings were provided by Tenneco's original business, its gas pipelines. Earnings also came from the automotive replacement parts business—where return on assets ran as high as 35%. In later years the earnings from energy exploration and

marketing and farm equipment offset the poor years at Newport News Shipbuilding and a price war in automotive parts. This year is no different. With the housing industry flat on its back and agriculture in the doldrums, Tenneco's huge (\$2.5 billion sales) J.I. Case division, which makes construction and farm equipment, is in the red. So is the chemicals division, also heavily dependent on housing as the nation's second-largest maker of polyvinyl chloride.

Offsetting those losers are oil and gas, where earnings are up strongly despite the oil glut, be-



Tenneco Chairman James Ketelsen
Conglomeration can make sense.

cause 67% of Tenneco's output is natural gas. With deregulation, gas prices continue to rise. Earnings in the gas pipeline business, an almost recession-proof regulated utility, rose 15% in the first half. The automotive parts business also has record earnings, thanks to the strong aftermarket.

Best of all, Newport News Shipbuilding is back on an even keel. After being torpedoed by over \$200 million in losses on commercial shipbuilding in the mid-1970s, Newport News returned to Navy work exclusively. The designer of the *Los Angeles* class attack submarine, Newport News has been able to deliver the submarine at a profit from the beginning. Ten submarines are currently under contract. In addition, Newport News, so far the only builder of nuclear aircraft carriers in the world, delivered the 93,000-ton *Carl Vinson* early this year, with the *Theodore Roosevelt* due to be delivered in 1986. The current defense budget calls for two more carriers to be built, which would run the backlog out into the 1990s. The yard's operating earnings have climbed steadily from \$14 million (before taxes and interest) in 1978 to \$82 million in 1981, a return on assets that approaches 20%. Earnings should top \$100 million this year.

It irks Ketelsen that those who now urge Tenneco to concentrate on oil and gas fail to see that it was the diversifications that made it possible to build the energy business in the first place. "We built a very, very significant oil and gas business in a very short period of time, because we had the cash flow from the other businesses, and the leverage," he says.

The exploration effort has paid off handsomely. Tenneco is one of the few companies that have increased their production over the past four years, and it has succeeded in replacing that production and adding to its reserves over the same period. Tenneco's reserves totaled 987 million net equivalent barrels of oil and gas in 1981, vs. 775 million barrels in 1977. The reserves have been added at one of the lowest costs in the industry.

To finance its growth and exploration efforts, however, Tenneco is leveraged to the hilt. One reason for the acquisition of Southwestern Life in 1980 for \$700 million in stock was that Tenneco could borrow \$500 million against it to sink into exploration. Total debt topped \$6 billion in 1981—over 52% of capitalization. The philosophy of operating with little cash and long lines of credit pegged to floating rates has cost Tenneco heavily in recent years.

Ketelsen professes not to be concerned about the debt load, pointing out that Tenneco's cash flow was up 26% in the first half and will exceed \$2.3 billion for the year. But he admits he has depended too much on floating-rate debt and plans to bring it down some \$400 million this year. To do so he has sold off unwanted businesses, such as the profitable Canadian energy business, as well as the flavors and fragrances division of Tenneco's British chemical company and the U.S. foam business, both of which were sold at a loss.

Ketelsen may be cutting back on debt but he's not cutting back on investment. He is proceeding with the conversion of Tenneco's Chalmette, La. refinery to run heavier and higher sulfur crude oil from Venezuela and Mexico. That will increase the company's refinery capacity by 25% at a time most companies are working

hard to cut back. Tenneco is expanding its natural gas pipeline network so as to reach new gas discovery areas. And at a time when hard-pressed farm equipment manufacturers like International Harvester are scrambling to stay afloat, J.I. Case, with Tenneco's financial muscle behind it, is aggressively building market share.

Because of its oft-derided diversification, the present oil glut doesn't concern Ketelsen too much. He has much to look forward to when the economy finally picks up. "We've got a good uptick in earnings coming in these depressed businesses that the average oil company isn't going to have," he says. Add to that the fact that 60% of Tenneco's gas will be completely decontrolled by the end of 1984, and Jim Ketelsen should be a happy man.

Now, if he could just get Wall Street to stop giving advice and listen. ■

Business should find the U.S. Supreme Court friendlier in the new term. The question is, will the lower courts notice?

First Monday in October

By Allan Dodds Frank

THE NEW TERM of the U.S. Supreme Court, which begins on the first Monday in October, promises to be an especially important one for business interests. The Court already has agreed to hear cases involving narrower standards for contesting job discrimination, union efforts to maintain closed shops while remaining exempt from antitrust laws, and state efforts to impose taxes on out-of-state operations of corporations. Other appeals court decisions that may be reviewed in the new term include cases covering environmental impact statements, class action liability suits and jury awards in price-fixing contests.

The new term may also be an especially anxious time for judicial liber-

als. Signs of a turning point in the character of the highest court in the land were evident in the term that ended last June. Quentin Riegel, assistant general counsel of the National Association of Manufacturers, reckons, for example, that business won seven of eight employment discrimination cases heard last term. The Court ruled in one instance that an employer sued for discrimination can limit future liability for back pay by offering—without retroactive seniority—the worker the job he was originally denied. In another case the Court ruled that a corporation using a union hiring hall is not liable for discriminatory acts that take place there—the union is.

The basis for a new pro-business coalition on the Court may well have been established with President Rea-



The U.S. Supreme Court

Bottom row, l to r: Justices Thurgood Marshall, William Brennan, Warren Burger, Byron White, Harry Blackmun. Top row: John Paul Stevens, Lewis Powell, William Rehnquist, Sandra Day O'Connor.

gan's appointment of Associate Justice Sandra Day O'Connor, the conservative Arizona Republican. Riegel calculates that in all but 2 of 35 cases significant to business since she joined the bench, O'Connor voted with Chief Justice Warren Burger and Associate Justice William H. Rehnquist. Those three form a solid conservative bloc that could reverse a pattern of judicial activism—some called it legislating—that characterized a good many Supreme Court decisions dating back to the days of Chief Justice Earl Warren.

Members of the Washington bar, an unsentimental lot, clinically note that Warren Court holdovers Thurgood Marshall and William Brennan are 74 and 76 respectively and not in the best of health. Rehnquist, 57, has a bad back. Burger is 75, Harry Blackmun and Lewis Powell are each 73, Byron White is 65 and John Paul Stevens is 62. Thus, President Reagan may soon have another Supreme Court appointment to make. Should that happen, the Court could well take an even more decided turn to the right. The votes of four justices are required for a case to be heard. The bloc of three plus a fourth like-minded temperament would control the docket. And the docket, of course, is

critical. In a busy term the justices issue only 150 to 200 opinions. Thousands of other appeals go unheard.

One logical place to look for candidates to fill a Supreme Court vacancy is in the level just below, among the 12 U.S. courts of appeals. Since he took office, Reagan has named four conservative law professors—Robert Bork and Ralph Winter of Yale and Antonin Scalia and Richard Posner of the University of Chicago—to court of appeals seats in Washington, New York and Chicago. Should Reagan get a chance to name another justice, they will be in the running.

But even if the Court does turn to the right, the rest of the federal bench, of a decidedly liberal cast in the main, may not feel compelled to notice. President Carter had the distinction of appointing more people to federal judgeships than any President in history. Thanks to a 1979 court expansion act, Carter named 56 appeals and 206 district judges. Nearing the midpoint in his term, Reagan has named only 18 appeals and 60 district judges. (Another 4 appeals and 23 district court slots are vacant at present.)

No judge, liberal or conservative, likes to be reversed on appeal, of course. In the past that has tended to be a strong check on political bias on

the bench. But, with the vast expansion of the courts and cases and decreasing contacts among jurists, that constraint on federal judges, all with constitutionally guaranteed life tenure and salary, has become weaker. Erwin Griswold, former Solicitor General and former dean of the Harvard Law School, believes that the decline of institutional integrity, continuity and reliability in the federal courts, especially at the appeals level, is scandalous. "With less than 1% of the court of appeals decisions being reviewed by the Supreme Court," Griswold says, "any judge today can feel quite safe in deciding almost any case the way he thinks it ought to be decided, regardless of Supreme Court decisions."

Griswold, who has argued more often in the Court than any other man alive, concludes, "To a very considerable extent, the way a case will be decided is a lottery, depending on who is on your particular panel."

That harsh judgment is nowhere more applicable than in the U.S. Court of Appeals for the District of Columbia. The 11 active judges there are easily sorted by the Washington bar into two warring tempers—five liberals, five conservatives and one fence-sitter. Some lawyers claim they

can predict the outcome of a case as soon as the three members that make up a panel are named.

As the venue for most suits against the federal government, the D.C. circuit has an extraordinary effect on political and legal thought. Depending on the draw, it can produce panels with opinions poles apart on the same issue.

Antibusiness decisions continue unabated from liberal judges. When the Environmental Protection Agency tried to relax pollution standards for industrial plants, Carter appointee Ruth Bader Ginsburg, a former Columbia law professor who made a name suing companies for sex discrimination, wrote the decision killing the EPA plan. She was joined by former Democratic Representative Abner Mikva on that one. The third panel member, a visiting district judge from Montana, went along. In another opinion, Mikva killed the Department of Transportation's effort to dump the requirement that the auto industry put air bags in cars. He was joined by Judge Harry Edwards, a liberal appointed by President Carter, and the king of the appeals court ultra-liberals, David Bazelon, now senior circuit judge.

Thoughtful conservatives like Robert Bork regularly resist an unending stream of legislative schemes designed to rein in the federal judiciary. Memories are still fresh of the public outrage when President Franklin Roosevelt tried in 1937 to pack the Supreme Court by proposing a bill to replace justices when they became 70 years old. (Six of the "Nine Old Men" who consistently overturned New Deal legislation were more than 70.) It's more than likely that the Reagan Administration will continue a less direct approach to the problem of restraining the courts. First, Solicitor General Rex Lee is deliberately limiting Justice Department intervention on behalf of individuals in school busing, civil rights, environmental protection and other areas. Second, says Attorney General William French Smith, the Administration is using its greatest single power—that of appointment—to put people on the bench who adhere to "the President's judicial philosophy, which is essentially judicial restraint." Sandra O'Connor is Exhibit A.

It will not be easy. The ranks of thoughtful academic conservatives are thin, it's hard to persuade conservative lawyers to give up \$300,000-a-year practices to make \$70,300 as a federal district judge, and you can't just drop a black robe over Justin Dart or Joseph Coors. ■

Yes, the rise in home mortgage rates pushed the CPI up. No, the drop in home mortgage rates won't push the CPI down.

The best laid plans

By Desiree French

REMEMBER A WHILE BACK when everyone complained that the Consumer Price Index overstated housing costs? Those rising mortgage interest rates pushed up the CPI unjustly. That, in turn, heated up inflation psychology and pumped up costs of programs tied to the index, like Social Security, government pensions and private industry cost-of-living pay boosts.

So the obliging folks at the Bureau of Labor Statistics changed the index.

Now, however, interest rates are beginning to come down—and look what's about to happen. Those declining mortgage rates, the cheaper housing costs that we have all been waiting for, are not going to be counted in the new CPI.

Look at the numbers: In July the CPI indicated (on what is called the CPI-U, for all urban consumers) that living costs rose 0.6% for the month, or an annual rate of 7.3%. Not bad, everyone said, inflation is on the run. But under the new system (called CPI-U, X-1) going into effect next January, that July digit would be 0.8%, which works out to an inflation rate of 9.7%. Almost double digits! The main reason for the difference is that mortgage interest rates dropped in the CPI-U and at the same time rents increased under X-1.

Imagine that next month all prices are unchanged, with one exception: Mortgage rates drop a full 1%. In that case the October CPI will drop 0.7% for the month, or an annual rate decline of 8.5%. (Of course, mortgage rates are unlikely to drop a full 1% a month every month in a year, but they might drop ½ of 1%.) Those same circumstances, under the new

way of measuring the CPI, would show no change at all. Why not? Because the new method will not take mortgage rates directly into account in figuring out housing costs.

How, then, will the new CPI calculate home costs? Well, instead of home buying costs (and other factors like mortgage interest rates, maintenance and repair costs, property taxes and property insurance), it relies on something called a "rental equivalence measure," an attempt to estimate what your house might rent for if you wanted to rent it.

Ironically again, with the drop in home building, rents seem to be pushing gradually upward. Under the old method of counting the CPI, a 1% a month increase in rents would have had a negligible effect on the CPI. But under the new indexing system, a 1% a month increase in home ownership, using the rental equivalence measure, would push the entire CPI up 1.7%—that is, all other prices holding steady.

What this means—should mortgage rates decline—is that the inflation numbers being cranked out by the government next year will be higher than we would be seeing under this year's method of counting. The prices won't be any different—but the numbers will look worse.

There is a bit of good news for federal budget watchers, however. Billions of dollars in government benefits, Social Security and government pensions, as well as private cost-of-living increases, go up with the CPI numbers. But they are measured by yet another offshoot of the Consumer Price Index, this one called the CPI-W (for urban wage earners and clerical workers). And that one doesn't change until 1985. ■

The boxcar, a piece of Americana as well as railroad history, may be rolling down the tracks toward oblivion.

"It's a dinosaur"

By Jeff Blyskal

IHATE TO USE the word 'dead,'" says Larry Cena, CEO of the Santa Fe Railroad, "but I doubt there will ever be another boxcar built." Recessions are amazing corrective mechanisms for weeding out the redundant, the inefficient, the weak links of an economy. The boxcar—standard equipment as old as railroad—ing itself—is a case in point. Hurried on by the economy, this inefficient piece of rolling stock is fast approach-

million per year. Only about 14.5% of all rail freight now moves in boxcars, versus almost twice that in 1970.

Fact is, the boxcar is economically obsolete. Take a 50-ton shipment of tomato juice bound for New York from Los Angeles. By boxcar, which must wend its way through a time-consuming tangle of switching yards coast to coast where the train adds and drops cars, the trip takes 14 to 16 days. Via piggyback in dedicated service—a straight-through run the railroads must make between major

dred miles on the same day.

Boxcars are "archaic in their use of labor," says David Anderson, a transportation economist at Data Resources Inc. Explains Santa Fe's Cena: "You need only one Teamster to pick up a piggyback trailer, whereas sometimes it will take 20 Teamsters to unload that boxcar in a workday."

Of course, there are also too many boxcars around for other reasons. In the late Seventies government incentives to meet a shortage caused investors to buy into them by the thousands as tax shelters. "With something like 80,000 boxcars in storage all over," says John Burditt, chairman of railcar maker ACF Industries, "the forecast for new boxcars between now and 1985 is about zero."

Beyond that point? "With deregulation of trucking and railroads, there are now a lot of opportunities to change mode," says DRI transportation economist Jim Hendrix. Piggyback "stretches the railroad's ability to compete beyond its rails."

"The boxcar is obsolete because railroads can't get enough business into them to make them profitable," says John Fishwick, retired chairman of the Norfolk & Western. Meanwhile, railroads and railcar manufacturers are working on more cost-stingy intermodal designs—everything from North American Car's RoadRailer, a regular truck trailer with fold-down railroad wheels, to Santa Fe's computer-designed containers that neatly stack two high—no wasted space—on a 125-ton flatcar. "It makes no sense to carry the trailer's tires, brakes and kingpin," says Cena. Santa Fe's 45-foot fiberglass and aluminum containers will carry general merchandise, and, to eliminate empty back-hauls, also carry bulk commodities like coal and grain.

To be sure, not everyone agrees the boxcar is headed the way of the steam engine. "It's premature to talk of extinction," says Alan Miller of Lamson & Sessions, a diversified manufacturer that got into the railcar business in 1979, just before the bottom fell out of the market. "More likely, the 50-foot boxcar with wider doors, smooth-skin interior and cushioned chassis will become popular."

Considering its 30-year life span, the boxcar will not disappear overnight, says Dan Croes of the American Association of Railroads. "A 30-year phase-out is more likely." One industry analyst is less optimistic: "Over the next ten years, you're going to see a lot of boxcars scrapped. The boxcar is a dinosaur." ■



A switch engine corrals boxcars to make up a train headed for the last roundup?

ing the end of the line.

The reasons: The boxcar has had a formidable competitor since the Fifties in piggyback service, in which a truck trailer is placed on a railroad flatcar and hauled long distance at less than half the fuel cost of highway transit. And, instead of blowing wheat and corn into converted 40-foot boxcars lined with heavy corrugated paper, railroads turned to 100-ton covered hopper cars to haul grain. Result: Between 1970 and 1981 boxcar loadings fell 58%, from 7.7 million to 3.2

cities to be competitive with truckers—the juice gets to New York in just five or six days. When you are watching inventories, time is money. A truck can probably equal that time or do better by breaking speed limits from Hollywood Boulevard to Broadway, but the cost by road is higher.

If the boxcar must go farther than New York—to, say, New Haven—add two or three more days of switching delays. The truck trailer, on the other hand, can be lifted off the train in New York and driven that last hun-

Once little Bic played David to Gillette's Goliath. But Goliath wouldn't stay dead. Can that old Bic magic work once again?

Why Bic got flicked

By Steven Flax

WHAT'S GONE WRONG with Baron Marcel Bich's marvelous marketing machine?

Bic Corp. of Milford, Conn., the U.S. arm of Bich's Société Bic S.A. of France, was once the paradigm of a low-cost consumer products company. No more. Since the end of 1980 its earnings have declined by 33%. Operating margins, which once ran up to 29%, have fallen to 6.9% through the first half of 1982, and both total sales and net income are down from last year.

And last year was not a good year for Bic. On \$218 million in sales, its profits were squeezed in lighters, it lost \$2.3 million pretax on disposable shavers and, for the first time in its history, sales of ballpoint pens fell. Still the largest pen producer in North America, Bic has had up to 80% of the market in years past. The best estimate now has it at 60%. Obviously, the erosion must be stopped.

That may not be easy. Despite the company's bullish public pronouncements, Bic's new roller ball pen, Bic Roller, has been disappointing so far. When the advertising behind Roller's introduction subsided, so did sales. Unit sales were down 50% in the first quarter of this year. Years ago, Bic had a chance to get into the erasable pen business early, but passed it up. "If people want to erase, they can use a pencil," one Bic marketing manager is purported to have said. Today, the erasable market is the fastest-growing part of the industry, and Bic is trying—so far without much luck—to

play catch-up with Gillette and Scripto.

What happened? For one thing, Gillette woke up. Bic's traumatic 80% drop in operating profits in pens last year was largely due to savage price-cutting initiated by Gillette's Write Brothers line. This year, says Marc Binder of the Pen Shop in Culver City, Calif., a big West Coast distributor, his dollar sales of Gillette pens were up 249%, while Bic's fell about 30%.



To judge from recent pretax earnings, Bic no longer has a cash cow. Says David Liebowitz, an analyst at American Securities Corp., "Gillette's strategy is hurting Bic dramatically." And \$2.3 billion Gillette, 10 times larger than Bic, can afford to keep the price pressure on for a long time.

But Gillette is not the only cause of Bic's problems. The company has brought others on itself. These days, the Baron spends most of his time in France. The American company is largely in the hands of Chairman Robert Adler and Bich's son, Bruno, 35, who came to company headquarters in 1975 and has been president since last February. Neither Bich nor Adler

wants to talk about it, but young Bich's training period appears to have been painful for the company, especially for its once-crackerjack sales force. In Europe seven years ago, insiders say the Baron spent part of a three-week Christmas holiday persuading Bruno to work up a five-year plan to get rid of highly paid salesmen and replace them with "order takers." Says one source: "If Bic could make disposable plastic clones that drove, spoke and wrote orders, they would much rather use them than human beings."

Since that time, insiders estimate that up to 80% of Bic's sales force, from national sales manager Ronald Shaw on down, have been fired or resigned. For those that remained, commission structures were changed so that salesmen earned less for the same amount of work.

Some of these dismissals have since come to haunt Bic. For example, Shaw became executive vice president of Pilot Pen Corp., the Japanese-owned company, which he quickly took from less than \$2 million in sales to almost \$30 million by getting into areas Bic ignored. Distributors complain that the overall quality of Bic's sales force has noticeably dropped.

"Ten years ago the caliber of people at Bic was absolutely the highest in the country," says Ed Melugin, president of the Dallas Pen Co. "These guys that come in here now, you wonder how they found the door."

The strain is already beginning to tell. Bruno Bich has a hot temper, say some employees, and has been known to bellow at workers and slam telephones.

Will that old Bic magic ever work again? Bic still has a lot going for it. The name is still

one of the most powerful consumer franchises in the world. Société Bic still stands behind the U.S. company with capital and resources. Despite industry skepticism, Bic is hopeful about its new line of pens called "Biro," its latest counterattack against Gillette. And the younger Bich, despite his inexperience and volatility, gets high marks from some of his employees as an intelligent, hard-working executive who is trying to learn.

But Bic has a long way to come back. Says the Pen Shop's Marc Binder, "Never before have they had to try to go get business back that they once had. And they've let a lot of it get away." ■

Moore and Sotheby's



"For me it had great drama with its big heart like a great pumping station," Henry Moore, in 1945, speaking about "Reclining Figure." In 1972, The Cranbrook Academy of Art entrusted Sotheby's with the sale of their entire collection including "Reclining Figure." It sold for a record \$260,000. In 1982 Sotheby's again sold "Reclining Figure," realizing

\$1,265,000, an auction record for sculpture, and for a work by a living artist. Sotheby's sells the finest art and achieves significant prices because it is the international forum for major institutions, serious collectors and dealers. For information about buying or selling fine works of art, contact Sotheby's, 1334 York Avenue at 72nd Street, New York 10021. (212) 472-3400.

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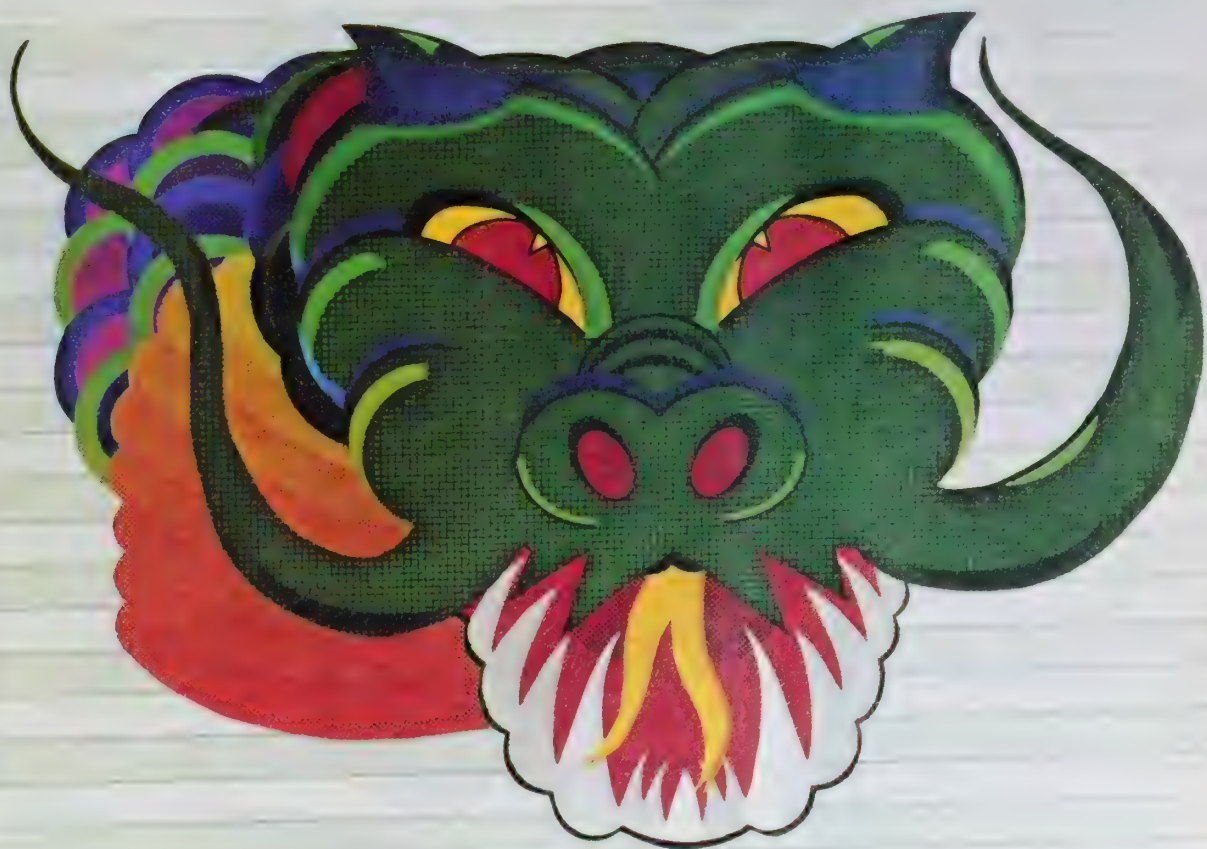
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Last issue, the staff of *FORBES* identified, ranked and described the richest people in America. The subject was irresistible food for further thought. Here, conclusions reached by the project editor.

On the art of becoming rich

By Harold Seneker

TO THE ETERNAL QUESTION "How do you get rich?" the cynic's answer is: "Have rich parents." Eddie Chiles, oilman extraordinaire and something of a celebrity in and around Texas and the Southwest, offers different advice. Says Chiles as a tag line in radio spots he pays for and delivers himself: "If you haven't got an oil well, *git* one." Both methods work, all right, but Eddie's advice is a lot more to the point.

Of the country's 400 richest people who were ranked and chronicled in the previous issue of this magazine, some 150 basically inherited their wealth and about 110 have not proved business-oriented. All the rest—nearly three-quarters of them—are either entirely self-made or, having inherited a fortune, then proceeded to run it up into one of the biggest in the country. Eddie Chiles did it with oil wells, but, as it happens, he came up just shy of making *The Forbes* Four Hundred list. As founder of Western Co. of North America and its CEO, he, with his family, is possessor of more than 10 million of its shares, which were lately worth about \$9 each. If our list had appeared a year ago, before his shares collapsed along with all the other oil stocks, he would have ranked more than halfway up it. Forty-two others did it with oil. But the rest made their fortunes in real estate, newspapers, radio and TV, manufacturing, agriculture, retail stores, shipping, construction, banking, film production, you name it.

What does all this mean? Could it be the so-called American Dream is not dead after all? Or weren't they just lucky, a case of being in the right place

at the right time? It couldn't possibly have been Horatio Alger stuff, rags to riches by your bootstraps, could it? Not plain, old-fashioned virtue—working hard and saving money—busily being its own reward?

Well, consider real estate. Of the 63 real estate fortunes on our list, 33

cause for wonderment because it is so low. The appraised values of the buildings (it is an illiquid market) have doubled and tripled along with the rising rents.

Since it is not uncommon in real estate to buy a building with 25% equity and take down mortgages for the rest, a man with \$25 million equity in Manhattan in 1975 could easily be worth \$200 million now. The lucky owners just had to hold on, collect the rent and ride their 3-to-1 leverage up through the stratosphere and past the wondering moon, right? Along with all those lucky builders, like Peter and Harold Kalikow with their brand-new office building now overlooking Park Avenue representing an instant \$100-per-square-foot profit, right?

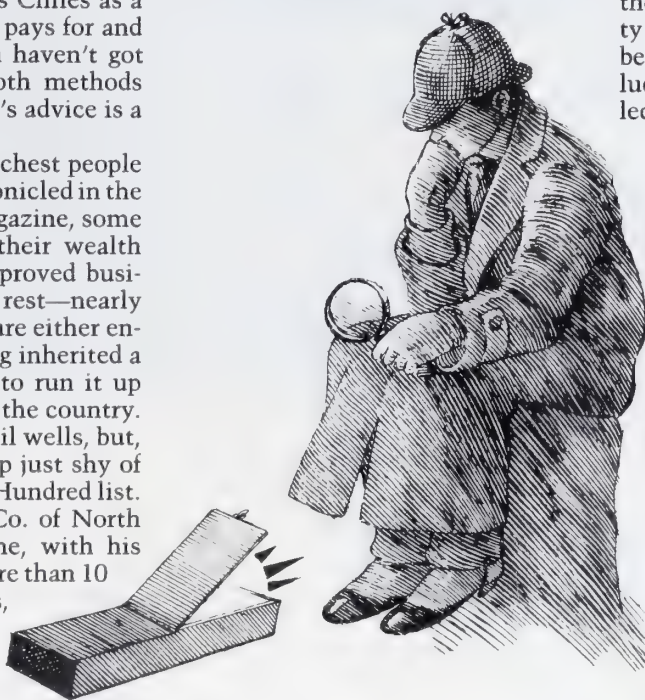
Well, first you had to shoulder your way up through one of the toughest real estate fraternities in the country, fighting to buy and hold properties everyone could stand on the sidewalk and look up at every day and evaluate for themselves; you had to have a little more vision than the other fellow, or a little more edge as a negotiator, or be a little closer to the local power establish-

ment. It is no accident that most of

these New Yorkers are the sons or grandsons of the original entrepreneurs, and have expanded family businesses built up over decades—and that includes the Kalikows.

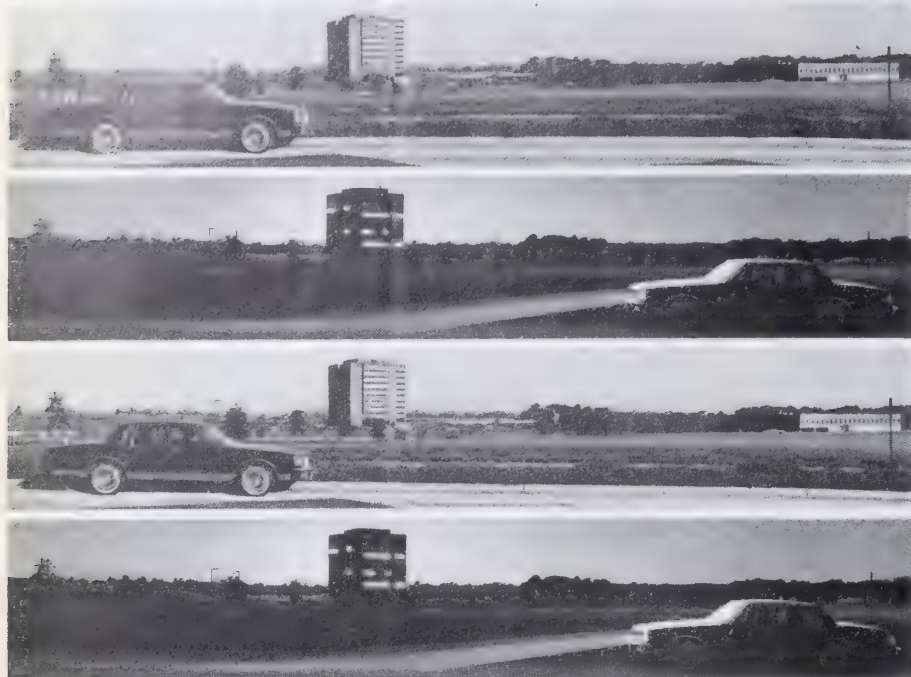
After you had your base established, then you had to survive the 1974-75 debacle. That means you had to have kept your head sufficiently during the speculative building binge that went before so you weren't driven under when the bottom fell out.

And if you think it is an easy task to



were made primarily in New York City. Surely that was luck: Those lucky enough still to be in midtown Manhattan real estate after that city's 1974-75 fiscal-crisis-cum-real-estate-bust have benefited from one of the more spectacular real estate spirals of recent record. Office rents have doubled and tripled in the past few years—an annual rental of \$25 per square foot at a top midtown address was a cause for wonderment in 1977 because it was so high; now it is a

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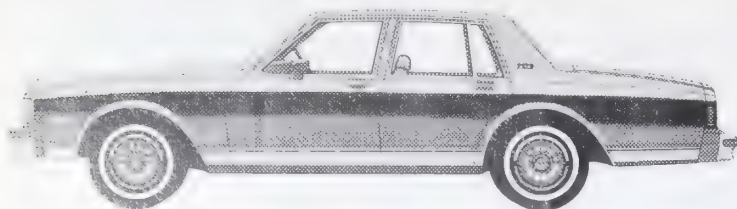
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assemble a building site on a street like Park Avenue without tipping your mitt and thereby spoiling your plan think again. Not to mention dealing with the city fathers and the construction unions to get your building built.

After all that, yes, it was nothing more than luck that a worldwide binge of inflation ultimately would help double and triple the value of your buildings. Some luck.

Now that office rents are finally turning soft (already down 10% to 15% in some cases), these lucky winners will have to show they are lucky enough to hold on to what they have in a time of disinflation, when leverage is likely to work the other way—shrinking them down rather than raising them up.

So, yes, there is luck involved; but clearly luck is largely going to be what you make of it.

The likes of George Lucas, who owns the only Star Wars game in town, are hardly old-time monopolists. The Sherman Antitrust Act, et al., seems to have done its stuff. What passes for monopoly these days is owning the local newspaper after the competition has folded.

If that sounds like too much hard work and old-fashioned virtue for comfort, how about our oilmen? That's luck, isn't it? A wildcatter hits oil one time out of ten, and it's pure "chance." Also, they had OPEC on their side, running up the price of their oil some ten times since the 1973-74 oil embargo, an inestimable advantage.

Well, consider the example of 55-year-old Sam Gary of Denver. Here-with his story, as originally reported: "...In 1967 picked up leases on 40,000 acres 'everyone' knew had no oil. Drilled 35 dry holes, financed by whittling interest to 30%. On 36th try, hit pool with at least 110 million bbl. His share of remaining reserves worth over \$125 million."

More than a tip of the hat to OPEC, that. Oil inheritors, it is true, like the first Hunt family, cleaned up—provided they could hold on to and properly manage what they had received. But now it remains to be seen just how well they will flourish in harder times.

How about monopoly, then? Haven't the robber barons and malefactors of great wealth (Rockefeller) so beloved of turn-of-the-century popu-

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The knowledge business



Anyone seeking proof that the country has long since left the industrial era for a services-oriented economy and is embarking already on a new Age of Information, need look no further.

lists, the Merchants of Death (du Pont) favored by World War I-vintage socialists, the bloated plutocrats (Andrew Mellon) lovingly lambasted by 1930s Marxists—haven't they been joined by greedy new monopolists, taking their place alongside the descendants of the old villains?

Alas, no. The descendants are there, in considerable number—14 Rockefellers, 30 du Ponts (not all with the family name), 5 Mellons. But Carnegie's fortune is gone, the Astors have all but disappeared from view; the Phippses and the Lykes and most of the other great fortunes are acquiring geometrically more heirs with each generation, progressively watering down their influence. Meanwhile, no new villains have sprung from the old mold: The Fords are hardly monopolists; Daniel Ludwig doesn't own all the oil tankers in the world, however much he may wish that he did; oil at present seems unable to ensure indefinitely the continuance of the OPEC trust, much less the rise of a new Standard Oil Trust.

The few who have tried to achieve 19th-century-style monopolies or corners—Arthur Wirtz in sports in the 1930s and 1940s, Leonard Stern in pet products in the 1960s and 1970s, Bunker Hunt's 1980 silver play—have run into nasty problems: Wirtz into a classic government antitrust suit, Stern into a barrage of private antitrust actions, and Hunt into an even older law, that of supply and demand.

Some fortunes have been built on proprietary patents—by An Wang, for example, or Charles S. Payson. But such people, and the likes of George Lucas, who owns the only *Star Wars* game in town, are hardly old-time monopolists. The Sherman Antitrust Act, et al., however imperfect around the edges, seems to have done its stuff. What passes for monopoly these days is owning the local newspaper after the competition has folded.

Nor, surprisingly, has financial wheeling and dealing proved the great answer, by any means, Saul Steinberg and Victor Posner notwithstanding.

Relief from taxes and a minimum of government regulation seem to be a big help: Real estate is a traditional tax shelter, and oil had the oil depletion allowance before there was

OPEC. The great railroad fortunes (like Harriman's) were built in the 19th century, in the days of lavish federal land grants for rights-of-way, and not in the latter days of heavy taxation and the ICC.

Certainly, the accumulation of great wealth almost always takes time: Steven Jobs, a founder of Apple Computer, seemingly became a centimillionaire almost overnight (actually, it took five or six years), but more

stations and networks. Only a handful—5—make their money from transportation, and one of these is Miami's Ted Arison, whose "transportation" is a fleet of cruise ships à la TV's *Love Boat*. Meanwhile, only 19 fortunes come from heavy industry, and none from railroads, which were the source of many of the great fortunes made in the late 19th and early 20th centuries.

Combine the media fortunes with the money made in retailing (12), hotels, casinos and movie theaters (7), and entertainment (5), and the shift becomes more dramatic. Anyone seeking proof that the country has long since left the industrial era for a services-oriented economy and is embarking already on a new Age of Information, need look no further. The 12 new computers-and-technology fortunes point the same way.

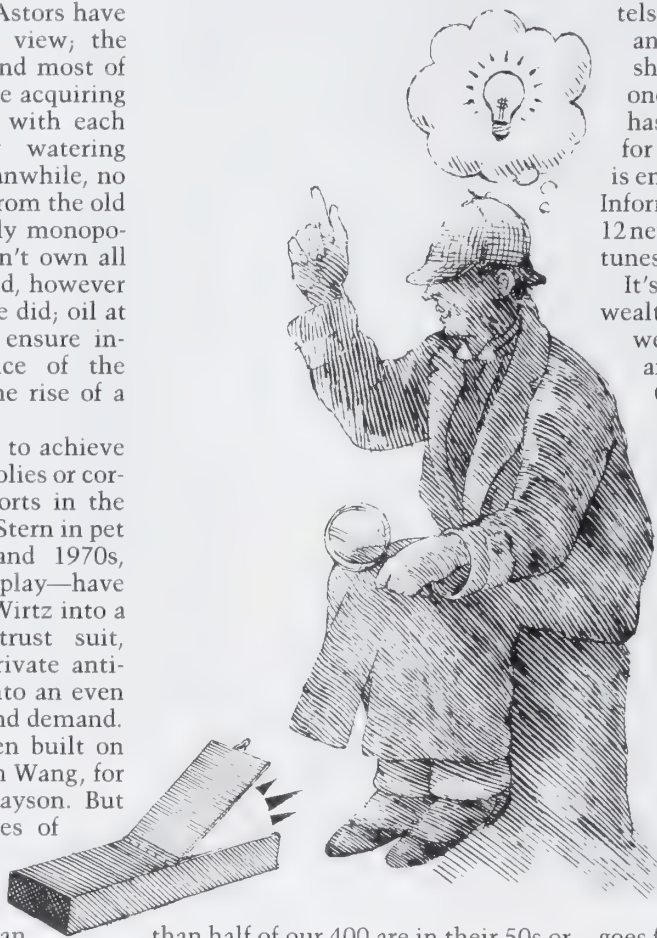
It's a good idea to put all this great wealth into perspective. Combine the wealth of The Forbes Four Hundred and you get a bit over \$92 billion. Confiscated and turned into cash, this would not even come close to covering the federal deficit for 1983. If they were *twice* as wealthy (our estimates are conservative, after all), they would not even balance the books for 18 months.

Assume they earn an average of 12%—no, assume 15%—and they would be earning about \$13.8 billion, or 0.6% of the national income.

So, it can hardly be said that the wealthiest families dominate American society or carry off the bulk of its good things. Actually, it's a fair guess that only a relatively small part of this \$13.8 billion

goes for consumption; the greater proportion is probably plowed back into (ultimately) job-creating investments.

Ferdinand Lundberg and his friends, who proved or purported to prove in the 1930s that America was owned and dominated by 60 families and tried to reaffirm that proposition as recently as 1968, will find his arguments worn awfully thin. The fact is, the ways of creating new fortunes, on the evidence, are more varied and numerous today than they ever were. Imagine, Phil Knight's Nike stock is worth \$275 million from making and selling *sneakers*. ■



than half of our 400 are in their 50s or 60s, and more than a quarter of them are 70 or more. (On the other hand, wealth does seem to take a toll of family life: There have been approximately 125 divorces—a few marital histories are incomplete—spread among some 92 individuals, out of line with the general population. Even so, the 400 have borne, sired and adopted some 1,140 children, a reasonably typical 2.9 apiece.)

After oil and real estate, the biggest producer of big fortunes was the press. Some 40 of the 400 trace their wealth to newspapers, magazines, radio and TV

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The Up & Comers

In the valley of the fallen agricultural equipment producers, little Steiger Tractor fights on—with a new \$135,000 model.

The chartreuse panther

By Eamonn Fingleton

THE HOUSE LIGHTS WENT DOWN. Circling laser beams pierced the gloom as if heralding the arrival of an extraterrestrial spaceship. Then, on flashed a bank of floodlights as the auditorium curtain parted to reveal the Panther Automatic—a 15-ton, 400-horsepower, chartreuse-colored supertractor that retails for \$120,000 to \$135,000.

Thunderous applause greeted this latest offering from Steiger Tractor in the civic auditorium in Fargo, N.Dak. last month. International Harvester and Massey-Ferguson may be struggling from one day to the next trying to sell ordinary tractors for \$40,000 to \$50,000, but to the 200 farmers and dealers sitting in the audience—warmed by a hearty steak dinner, plentiful cold beer, a rather technical slide show featuring heroic tractor shots, and a less-than-stirring rendition of a forgettable ballad called *The Future Is Now*—the Panther Automatic looked like a surefire winner.

Sitting in the wings, taking it all in with a professional eye, was Steiger CEO David Koentopf, 39. Had he gone soft in the head, introducing one of the world's most expensive tractors right in the middle of the worst farm slump in 50 years? "In this market right now everyone is competing on price, and it is very destructive," says Koentopf. "Launching a new model with features that are uniquely ours is the best way of fighting back."

Besides, Dave Koentopf has had a crisis on his desk ever since the day he arrived at Steiger Tractor as financial vice president back in 1975. His predecessor, Jack Johnson, had just built

a brand-new \$8 million tractor plant but had not arranged financing for \$3 million of equipment. Already undercapitalized as it fought to keep up with demand in the boom that followed the big grain sales of the early 1970s to Russia, Steiger had more debt than equity.

"In retrospect, we realize the plant was just too big," says Koentopf. "It has never operated at more than 55% of capacity." But in 1975 it was too late to second-guess. Koentopf, then 32 and an accountant new to the tractor industry, had to fix up a leasing deal—and quick.

He made it, but it was a squeaker. Over the next two years he imposed tight financial controls on what was still an immature, gung ho organization that had been used to having life too easy. Those controls probably saved Steiger's neck in the potentially disastrous farm depression of 1977-78. So Koentopf was the obvious choice as successor when Johnson stepped down as CEO in 1978.

The company grew out of a sideline venture for the Steiger brothers of Minnesota. Douglass and Maurice Steiger were frustrated by the pint-size tractors of the Fifties that lacked the traction to handle the wet spring mire. They figured they could build a bigger and better one themselves right in their own backyard. In 1957 they rolled out a 23-ton, four-wheel-drive ground shaker that made them the envy of the farmyard overnight. Friends and neighbors were so impressed that pretty soon the brothers were cranking out a few dozen a year on the side.

By the late Sixties word of the Great Tractor reached the big city. A group

of investors from Fargo visited the Steiger farm near Red Lake Falls, Minn. and bought 52% of the business for \$300,000. They built the present plant in Fargo. As time went by, the idea of the supertractor was refined. Better sound insulation was installed, along with a variety of engine options. The latest Steiger innovation is a special automatic shift that allows the farmer to shift gears without stopping, unlike most other tractors. That's important if you are plowing in hilly country. And Steiger's new Panther even comes with a digital speedometer that shows speed to the nearest tenth of a mile per hour. Mario Andretti might not need that on the Formula One circuit, but if you're spraying crops, going a few tenths of a mile too fast may mean underapplied insecticide and a ruined crop.

A brochure from Steiger Tractor makes the Panther sound more like an experience than a workhorse: "A Steiger is one of the quietest and most comfortable tractors on the market," it reads. "Air conditioning and pressurization provide clean climate control. Picture windows with wipers front and rear give maximum visibility. A fully adjustable seat and accessible controls make operating comfortable and easy. And an AM-FM stereo makes it relaxing."

Things have come a long way since Old MacDonald's time.

But it takes more than slick brochures, flashing lights or even a good product to get farmers to buy these days. Steiger sales in the nine months to June dropped 34% year to year and the current final quarter of the company's 1982 fiscal year looks little better. So far the bottom line has withstood the punishment remarkably well. Koentopf reported a profit of \$660,000 in the first nine months, and he has a sporting chance of breaking even for the year. That's a far cry from last year's \$6.2 million, or the 15% return on equity the company has shown on average since 1977, but it's a creditable performance in the farm equipment business these days.

Koentopf says, "The price discounting has been the worst we have ever seen. It has been bordering on irresponsible." Last fall, he tried manfully to maintain prices in the face of desperate price-cutting elsewhere.

Koentopf says: "In retrospect, trying to maintain prices was probably a mistake. But we were starting from a different position. Our competitors had a lot of inventory to unload; we

did not and our objective was to remain profitable." Koentopf has also been forced to extend credit for the first time to his dealers. At last count North American dealers had \$35 million worth of Steiger tractors sitting unsold on their lots. All in all, inventories of finished tractors at the Steiger plant or on dealer lots now represent 66% of annual sales. So two-thirds of Steiger's present sales volume has been sold only on paper. Frightening as that may seem, that's low by industry standards today.

So Koentopf is fighting hard these days to keep Steiger afloat. The labor force has been cut back by more than 20%, and Koentopf fought and won a bitter ten-week strike over pay last year. And he is saving some \$700,000 a year of badly needed cash by scrapping the dividend.

But what has really saved the day so far was Steiger's inspired decision to make a public offering in November 1980. That pulled in \$5 million of fresh capital before the farm cycle turned down. Steiger shares, which came out at 9¾, fell as low as 5¾ earlier this year and today are 7¾.

Another bright spot is the relative success of Steiger's Australian operations. The big green Steigers are ideal

for Australia's dry, hard soil and they were the first in the country with four-wheel drive. Now that an earlier service problem has been cleared up, Australian sales account for nearly a quarter of the total sales.

That's helped make up for lost orders from Ford and Harvester. In the past Steiger did a little private-label work, using extra capacity to make four-wheel-drive tractors under contract for the two giants. But now both deals have been terminated.

Koentopf says that may be a blessing in disguise. After all, Harvester is now recommending that its strong dealer network stock more Steigers—welcome news since Koentopf is trying as hard as he can to increase and upgrade his dealer network. In the last year alone Koentopf has taken on 85 new ones, bringing the total, after considerable pruning of other dealers, to 410.

Thanks to Dave Koentopf, Steiger Tractor has stood up remarkably well to the worst slump in agricultural equipment since the Thirties. Unlike many of his competitors, he well knows that the troubles of the industry giants could spell opportunity for a still solvent and still entrepreneurial Steiger Tractor. That's why he's

launching new models and expanding his dealer network just when things look their bleakest.

It's not easy. But at least one irritating uncertainty is out of the way. Until last month International Harvester was Steiger's biggest stockholder, with 29%, and Koentopf naturally had some nightmares about where the holding might end up, as Harvester continues its drive to raise cash. Now Deutz, the American arm of German tractor maker Klockner-Humboldt-Deutz A.G., has bought the stake. Koentopf seems happy. "Deutz is a fine company, as good a partner as we could have hoped for," he says. "They make tractors up to 200 horsepower, which is just about where we start. It is a good fit."

If he is worried about a full-scale takeover he doesn't show it. But the more immediate problem is the storm that continues to blow with unprecedented ferocity in his seriously overproduced industry. There's not much even the most resourceful entrepreneur can do about that. So Koentopf is bracing for losses in the year ahead. "There are three things wrong with agriculture," he says with a frown. "Commodity prices, commodity prices and commodity prices." ■



David Koentopf of Steiger Tractor

"The price discounting has been the worst we have ever seen . . . bordering on irresponsible."



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Hanging around military contractors for odds and ends can be quite lucrative, as little Aeroflex has discovered.

Crumbs from the table

By Paul B. Brown

Those scanners over there are for the M-1 tank," says Milton Brenner, president of \$28 million (sales) Aeroflex Laboratories, as he walks a visitor around the company's brightly lit, crowded factory in Plainview, N.Y., a New York City suburb. "That vibration isolator will be used on an F-14 fighter, and that brushless DC motor will be used on one of NASA's satellites—they won't

even tell us which one."

It is not all high-tech glamour in Plainview. "Over there we are putting together a small assembly-line motor for a local manufacturer."

As a job shop that makes specialty parts to order, Aeroflex keeps no inventory, and all of its R&D costs are picked up by the customer. Since 70% of the jobs are done for the government, either directly or through prime defense contractors, the customer pays well. So well that Aeroflex

has managed a five-year return on equity of 24% on long-term debt of about 26% of total capital. Earnings during that period grew at a compounded rate of 61%.

The secret is to build specialty parts that no one would make on spec (startup costs are too high) by hanging around the prime contractors on multibillion-dollar defense projects and picking up crumbs from their table.

It took a while to develop the formula. Aeroflex was started in 1938 by an airplane buff, Frederick Hussey, who made specialty parts for airplanes. Like most small contractors, Aeroflex angled for jobs by competing on price. Fierce competition drove the company into the safer waters of military contract work, where the prime contractors like Martin Marietta, Honeywell and Hughes are not particularly price-sensitive. If the government pays General Dynamics \$2 million to build the M-1, is General Dynamics going to care if the Aeroflex scanner costs \$3,000 or \$3,200?

Why can't a giant company like General Dynamics do the work itself? Brenner smiles. "General Dynamics, or whoever, can't afford to take an order for less than \$1 million," he says. "Their costs are 50% to 60% higher than ours. The paperwork they have to go through on small orders is insurmountable. No company could have all the expertise to do every part of every job. The capital investment that would be required to be completely vertical does not make sense."

Once Aeroflex gains expertise with one specialty part, the company frequently picks up orders for similar items. Building stabilizers for aerial camera platforms led to motors to put the stabilizer platforms in place. This led to hybrid chips to program the motors to drive the platform. Those three lines plus one other accounted for 73% of sales last year and 85% of profits. Julius Winer, a consultant to Aeroflex since 1976 who became chairman in 1980, is predicting 25% sales and earnings growth in 1983 and sees no reason why Aeroflex cannot keep up that pace with generous military budgets projected. "We are set for the next four years," says Winer, who still works two days a week as a senior vice president of brokers Prescott, Ball & Turben.

Winer, 64, and top management will be able to take advantage of some of this growth to motivate management. He has installed a profit-sharing system that calls for bonuses



Winer (left) and Brenner of Aeroflex
"We're set for the next four years."



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The Up & Comers

based on performance. As a result, Chester Gilbert, vice president for isolator products, increased his base salary of \$45,000 to better than \$160,000 through the bonuses, and Brenner nearly doubled his \$78,000 salary. Winer did not fare badly, either. On an \$100,000 salary as chairman, his bonus was \$126,000.

Now Aeroflex is making tentative expansion plans, largely within the military high-tech field. True, the company did buy the Huxley Envelope Company for \$4 million in 1980. "It was cheap and makes money," Winer says. More in line was last year's purchase of Filtron, a manufacturer of radio frequency filters and shields for telephone and radio lines. Aeroflex is also moving into maintenance work for the military.

But Winer and Brenner are playing a cautious game. With \$5 million in cash, a \$15 million line of credit and authorization from the stockholders to increase the common stock from 3.25 million shares to 5 million, the company can afford to be more aggressive. A true entrepreneur might try to break out of the military job-shop mold while the getting is good.

In the meantime Winer and Aero-

flex face four years with little downside risk. At worst the company should grow at 25% a year. At best the two new divisions will click or there will be an acquisition, or the company will be acquired and the officers and directors who own 20% of the stock will become rich.

What makes Sonny run?

There are so many good deals to be had in the Midwest today that I can hardly go to sleep at night," says Harold (Sonny) Van Arnem, 40. While others in the economically depressed heartland bemoan their fate, Van Arnem sees only opportunities. Starting with just \$1,000, he has produced a couple of movies, including a Dracula takeoff called *Love at First Bite*, bought the Detroit Express professional soccer team as a consolation prize after he could not buy Pontiac's Silverdome stadium, and purchased one of the largest resorts in the Midwest—Sugar Loaf Mountain Resort and Conference Center near Traverse City, Mich. All of these have made him worth an estimated \$10 million, and he says he has just begun.

Van Arnem is happy to talk about the deals he is now working on while jumping rope at home—an activity he

takes as seriously as everything else he does. "When I get uptight, which happens all the time, jumping rope does wonders for me," he says.

After graduating from the University of Cincinnati in 1964, Van Arnem became a management trainee at General Electric. Within three years he learned a lot about computers. He also learned he would never fit the corporate executive mold, because of its rigid day-to-day routine. So Van Arnem left GE and formed ACTS Computing Corp., a software and time-sharing company. ACTS soon became a major force in the business, but was perennially strapped for cash, trying to meet large payrolls and waiting up to a year for payment on government contracts.

So in 1970 Van Arnem sold half the firm to Lear Siegler Inc. in order to pay off debts, and sold Lear the rest three years later for a total of \$4 million. What to do next?

First, a three-month tour in the Nixon White House as a consultant on what has become the new federalism. Then in 1974 he returned to Detroit and started the Van Arnem Cos., selling leveraged computer leases, a relatively new concept at the time.

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Van Arnem behind the Detroit Express goal

"Sometimes people make business a way of life."

least 20% below the cost of a conventional loan. The lessor earns between 15% and 30% per year on an aftertax basis. And, as the packager of the deal, Van Arnem receives a fee of between 2% and 5% of the purchase price and frequently shares in any residual value when the equipment is sold after the lease ends. This is where Van Arnem makes big bucks. He has put together more than \$200 million in leases so far with new deals being packaged every month. Though Van

Arnem wouldn't say how much of a lease's value actually drops down to his bottom line, 10% would be a conservative guess.

All this has enriched Van Arnem to the point where he finds money tedious. "Sometimes people make business a way of life," he says disdainfully. "Their life is dictated by the monetary rewards, and that to me is really boring." In his quest for a more fulfilling life Van Arnem became a partner in an auto-racing team in 1973. From

that came *The Quick and the Dead*, a documentary about Grand Prix racing in 1975. Although a commercial failure, the experience whetted his appetite. He did a bit better coproducing *Love at First Bite*. It cost \$4 million and has already grossed \$50 million worldwide. Van Arnem now regrets keeping only 25% of the action.

Where does Sonny Van Arnem go from here? A \$15 million deal with Conoco to develop gas reserves is under way and he promises to make his soccer team profitable. But he still yearns to pull off a really big deal in cable TV with the Express providing the nucleus of a regional sports network. He would also like to expand his real estate and energy operations.

"The thing that excites me is starting with an idea, like a movie or a real estate opportunity or a sports deal, and then putting all the pieces together," Van Arnem says. "When they fit, you feel good."

When they don't . . . but that hasn't happened yet.—Stanley W. Angrist

The chairman giveth . . .

Time was when David Wachtel, 40, the former president of Shoney's Inc., was a fair-haired boy. He started working for Chairman Raymond Danner as a 16-year-old dishwasher and

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The Up & Comers

worked his way up through the ranks until Danner, 57, finally made him chief executive of the \$270 million Nashville-based restaurant chain last fall (*Up & Comers*, July 19).

But it pays to remain humble when you are the chairman's surrogate son, especially when the chairman owns 23% of the stock. Wachtel learned that lesson the hard way. He was forced to resign suddenly last month, over a "difference in operating philosophy," and Danner once again took over the day-to-day operations.

"It was like having to get rid of one of your family," says Danner. There was no one conflict, just "a bunch of small things. The board became disenchanted with his impulsiveness."

The bone of contention, speculates Craig Weichmann, an analyst at Morgan Keegan in Memphis, was a "disagreement over how fast to open new units of their Famous Recipe fried chicken restaurants." Wachtel may well have wanted to move faster. After all, in the third quarter, Shoney's profits were up 20% on a 20% increase in sales. And Wachtel's confidence was no doubt strengthened when Shoney's got an unexpected windfall last month: The Heublein stock Shoney's received for the sale of its Kentucky Fried Chicken outlets went from \$5.7 million to \$11 million after R.J. Reynolds' tender offer for Heublein.

Now Wachtel says he is thinking about starting his own fast-food chain. Isn't he comforted by his stock and stock options worth \$1.5 million, plus additional severance? "I'm richer this week than I was last week," he says ruefully. "But I left quite a bit on the table, too."

As for Danner, he says his heart is filled with charity for his old protégé. Or, as he puts it: "There are so many people in the food business, what's one more on the block? I wish Dave well."—Barbara Rudolph

The education of Ron Moskowitz

Convinced their bosses in Avco's Systems Division were missing a sure thing, Ronald Moskowitz and Ronald Rosensweig left in 1968 and took with them their knowledge of the uses of fluids containing iron oxide particles. They formed Ferrofluidics Corp. and opened their doors to the world. Almost nobody came. "We had a magnificent technology with lots of potential," says Moskowitz,

now 43. "But we had no products, no market and no customers."

The key, Moskowitz decided, was to develop products using ferrofluidic technology. So he came up with a device that would guarantee an ultra-tight vacuum seal; such vacuum conditions are essential in semiconductor manufacturing. That was no less frustrating. "There can be very long periods of time before products really get into the marketplace commercially," says Moskowitz. In the process of changing the company's orientation from research to product development and marketing, though, partner Rosensweig grew impatient and left.

Moskowitz slogged along on his own, slowly expanding the uses of ferrofluids. In the mid-1970s the minicomputer industry handed him his break when it began using Win-



Ferrofluidics' Ronald Moskowitz
Learning his lessons the hard way.

chester hard-disk drives, which combined great storage capacity with high retrieval speed. It employed a head that floats on a cushion of air a twenty-millionth of an inch above a rapidly rotating disk. Trouble was, if a contaminant got between the head and disk, the information was magnetically scraped off the disk and lost forever.

The computer industry knew that Ferrofluidics' seals were reliable. Would Ferrofluidics develop a seal for the Winchester disk? Would a starving man sit down at a banquet?

By 1980 Ferrofluidics was shipping seals in volume to virtually every major manufacturer of Winchester disk drives and to computer manufacturers in Japan and the U.S. This year the company will do more than \$10 million in sales and ship 1 million seals. Moskowitz expects \$100 million in sales within five years.

All this set Moskowitz to thinking. "For years we had been making other people's silicon crystal-growing vacu-

um furnaces work better," Moskowitz explains. "In fact, there are some companies whose reputation for high quality in semiconductor manufacture depends largely on our sealing technology. So we began to wonder why we shouldn't manufacture our own furnaces."

Moskowitz acquired furnace technology from Varian Associates for \$1.25 million. Within six months he brought out what observers called "The Cadillac of the industry," now sold at \$200,000 less than the \$500,000 average price on the market. But with funds running low from heavy development costs, Moskowitz faced the choice of borrowing at 18% or going public. John Muir & Co. had offered to take the company public. Moskowitz bit. The stock sale netted \$3.3 million and another lesson. Muir liquidated a month later, but, unlike other Muir offerings, Ferrofluidics' price held. "Most of the people who bought our stock were familiar with our processes," says Moskowitz. "It turns out we could have financed without an underwriter."

That knowledgeable body of shareholders has kept the shares steady at around 3, despite a \$2.2 million loss in 1982. "We had losses because our development costs are 40% of sales right now," Moskowitz says. "In 1984 they will drop down to about 10%."

Unlike their U.S. counterparts, Japanese semiconductor manufacturers increased their spending at the start of the recession. As a result, they captured the 64K RAM market. Making chips in such volume means having silicon furnaces and that means dealing with Ferrofluidics.

That has taught Moskowitz another lesson. "We adopted Japanese quality-control practices, like quality circles," he says.

He learned one other thing. "You know, if I were starting a company like mine today, the first thing I would do is go out and hire a guy like me, someone who has learned all his lessons the hard way," Moskowitz says. "That way, the company wouldn't make any mistakes." Or at least not as many.—Stephen Kindel

Hope springs eternal

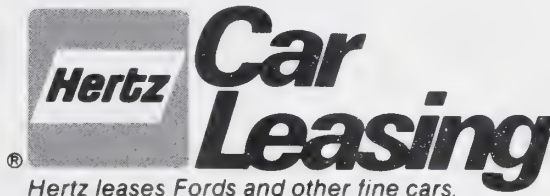
Charlie Fritz was driving along in the rain one day last summer when he started having problems seeing the road. "I had had the car [a 1981 Monte Carlo] for only a month, and the wipers were doing a lousy job. In my 40 years of driving, wipers are the only thing they haven't improved. Hell, if we can put a man on the

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The Up & Comers

moon, we have to be able to make a better windshield wiper."

Fritz, 60, has owned and operated vending machines all his life. An inventor he is not. But now Charlie Fritz of Wilmington, Del. says he has invented a better windshield wiper blade. Don't scoff. Fortunes have been made on less.

There are two problems with conventional wipers, Fritz will tell you. First, they are made of rubber, which starts to decompose within a year once exposed to the elements. Second, once a wiper blade gets a nick in it, it leaves a smear on the windshield. Fritz, who calls his company Smear Clear Wiper Corp., has solved these problems and to his credit has done it without reinventing the wheel.

For example, Fritz did not sit in his basement trying to brew up a better batch of rubber. Instead, he went to Du Pont, conveniently located in Wilmington, and told them what he needed. They took a suitable elastomer down off the shelf. (Elastomers are a type of synthetic rubber that doesn't deteriorate as quickly as the real thing.) Fritz then set out to redesign the blade and came up with a ridged, rounded wiper that rubs the surface of the windshield on three edges as it rotates on each sweep.

Some \$5,000 later, armed with patents and a prototype, Fritz called the two companies that dominate the wiperblade market—Anco and Trico—and asked if they were interested. "They told me politely to go away," Fritz recalls.

So, instead, he went to see Rick Bell of Harvard Business Services, which despite the name is not affiliated with the university. He had read about Bell in a *Wall Street Journal* article. When you call the company telephone number, Bell's wife answers and you can hear his toddler wail in the background. Bell, who helps small companies incorporate and find funding, is trying to line up a licensee. "We are looking for someone who sells auto parts and has a good reputation with consumers, like an oil-additive company," he explains. "We don't want to sell this stuff ourselves."

But they will if they have to. Fritz and Bell say they will give it six months and will then start selling on their own, probably to new car dealer service managers of high-priced cars. Will it work? The results should be final in about a year. But think. Did you ever think twin razor blades would catch on?—Paul B. Brown

Building New York's subway cars may not seem like great business, but for Canada's Bombardier it beats snowmobiles.

Making the "A" train

By Subrata N. Chakravarty

THE \$800 MILLION* contract that Montreal's \$450 million (sales) Bombardier landed in June to supply New York City with 825 subway cars is the best news Chairman Laurent Beaudoin has had in over a decade. Bombardier earnings for the past 11 years combined don't even add up to a third of the \$16 million the company earned on 1971 sales of \$165 million. Last year Bombardier lost \$18.5 million on nearly 3 times the volume.

Until now Bombardier's fortunes have been tied to the one-man recreational snowmobile, invented by Beaudoin's father-in-law, J. Armand Bombardier (pronounced *Boam-bah-dyay*), in 1957. Bombardier, who died in 1964, didn't live long enough to see snowmobiling become the rage of the late Sixties, when the company's sales rose in just six years from \$8 million to \$140 million. As competition came roaring in, Beaudoin integrated backward to lower his costs. But the snowmobile market was already saturated. Add in a couple of warm winters, restrictive government regulation and the energy crisis, and snowmobile sales skidded from 500,000 units in 1971 to 195,000 in 1977.

Then Beaudoin remembered that an Austrian snowmobile enginemaker he acquired in 1970 also made trams under license for Vienna. Montreal needed another 423 subway cars. The license to the French designs for

Montreal's existing rubber-wheeled cars was available, and Beaudoin snapped it up. With it he beat a new car from competing Vickers.

Trying to capitalize on his good fortune, Beaudoin bought the Montreal Locomotive Works division of Studebaker Worthington in 1976. MLW made subway cars for Toronto's Metro as well as diesel electric locomotives, and had a radical new train design. The trouble was that MLW also had outdated equipment, poor management and terrible labor problems. "We had to rebuild almost everything," Beaudoin admits. That purchasing mistake ate up two decent years in the snowmobile market dur-

*All amounts in Canadian dollars



Bombardier Chairman Laurent Beaudoin
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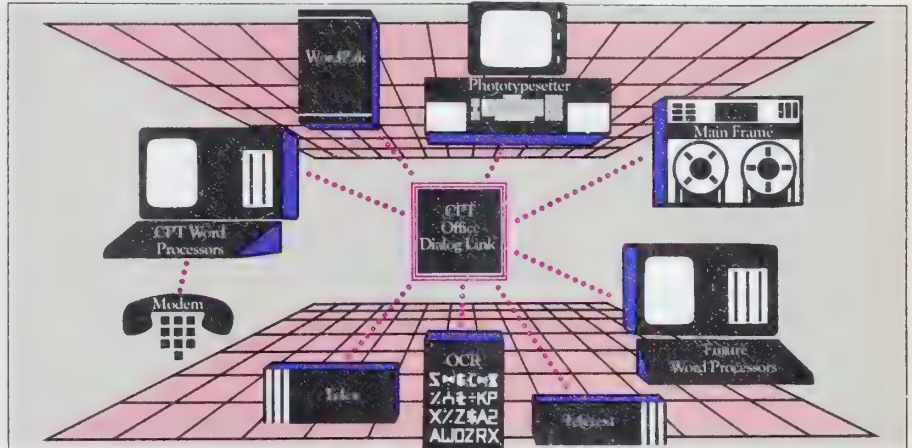
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That error aside, however, Beaudoin was well aware that if you are a small company in mass transit and you can't license the knowhow from experienced foreign producers, don't start. "Mass transit technology may not be as sophisticated as aerospace," he explains, "but it has to be very,

very reliable. It has to be in operation for at least five years before you know that you have a good product. Technology in mass transit has been developed for many years in Europe and Japan, and it's available."

Using proven foreign designs in modern North American plants has proved a winning strategy. Bombardier

has an Austrian license for the Vienna trams, Belgian technology for Portland's trams and French rubber wheel technology for the Montreal and Mexico City subways. But Beaudoin is not above using U.S. technology. Bombardier makes New Jersey commuter cars under license to Pullman and Chicago's suburban transit cars using a design by St. Louis Car. For New York's steel wheel cars (rubber would wear out too quickly on its sharp curves), Bombardier has a license from Japan's Kawasaki, which won a smaller order from New York last year but decided not to bid this time.

Beaudoin doesn't just borrow other people's technology. He borrows their credit when he can, too. The Canadian government is lending New York City 85% of the final price on the subway car order at a bargain basement 9.7%. Competing Budd Co., now a subsidiary of Germany's Thyssen A.G., cried foul. But in July Treasury Secretary Donald Regan said Bombardier would have won the contract even without the sweetener, because of other criteria, such as price, delivery reliability and design.

Beaudoin is especially proud of the way the contract with New York is written. "We said to ourselves, 'What have others done wrong that we have to be careful not to repeat?'" he says with a shrewd smile. So Bombardier's contract has provisions for impartial arbitration over contract performance disputes, a cap on penalties for delay and complete indexation for inflation.

Now the revenues in mass transit, which are booked only on delivery, are starting to roll in. This year they will be around \$160 million, up from \$50 million last year. And, thanks to the New York order, the backlog stretches out through 1987.

Two other growing operations at Bombardier are locomotive repair parts, now a \$100 million business, and light military vehicles (trucks and jeeps) just beginning to build up.

Even recreational vehicles are showing fatter margins. "We see it as a cash cow," says Beaudoin. "The shakeout has taken place and, with around 40% of the market, it could be a very profitable business for us in the future even on lower volume."

It has taken a long time, and it happened almost by accident, but Laurent Beaudoin has pulled Bombardier out of its long nose dive and on to a promising new flight path. And to think it was a contract with Mayor Koch's hard-pressed Big Apple that did it! Beaudoin must feel like putting *une grande pomme* in his lapel. ■

The stuck-door syndrome

Ask any one of the 3.4 million straphangers who endure New York's antiquated subway system each weekday what's wrong down there and he or she will tell you in no uncertain terms: It's filthy. It's hot. It's crowded. It's noisy. You're taking your life in your hands to get on it. You can't even see it for the graffiti. The doors don't open. The lights go out. Electrical fires are frequent. And some day, not very long from now, the whole thing is just going to grind to a horrible halt.

Ask anyone what kind of subway car Bombardier should be building and the answer will always be the same: one that works.

You think this should be within the grasp of a nation that is able to put men on the moon? Think again. Take a simple, straightforward matter like doors, for example. In June alone, there were almost 1,000 problems with subway car shells—like doors that don't work. Now why can't they manage to make a subway car whose doors open and close properly?

Reason: Because you are dealing

with New Yorkers, and New Yorkers like to hold subway doors open for each other. It is a gesture of solidarity with one's fellow sufferer. Trouble is, every door held open is likely to trip a special electric device in the door's motor. The door motor heats up trying to close the stuck door and when it gets hot enough the device shuts down the motor altogether. The current that locks the door has slowed down. An unlocked door causes the guard light on the side of the subway car to stay lit. A motorman cannot start the train until the light goes out. Result: yet another stuck subway train.

Doors can also fail to open when the wires connecting the conductor's pushbutton control to the door are broken or dirty. That means that all the doors on one side of as many as five subway cars may not open.

How does Bombardier propose to solve the stuck-door syndrome on its 825 new cars? By sticking to tried-and-true technology.

Or, it could always try beaded curtains. . . .—Anne Field



New Yorker manhandling subway door
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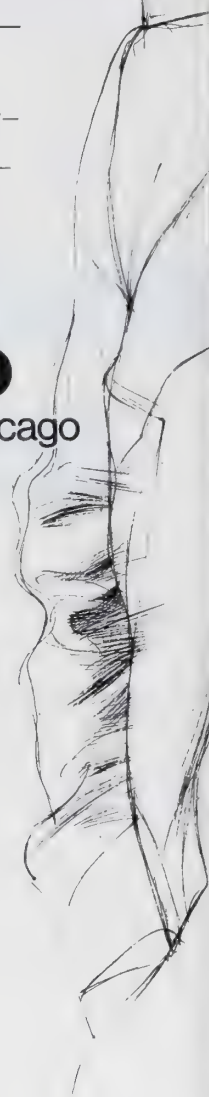
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The first thing you look at in a takeover these days is the target's cash flow. Maybe the average investor should do the same.

A better yardstick

By Richard Greene
with Paul Bornstein

IN JANUARY 1981, you might have been tempted to buy stock in Boeing. The most recent quarter's earnings per share were \$1.72, up from \$1.50 the previous year. Indeed, every quarter in 1980 was up from its counterpart in 1979 and profits for the year were up about 18%.

But if you had looked at cash flow figures, you would have seen an entirely different picture: Operational cash flow had sunk sharply into the red for three quarters, from negative \$34.6 million in the second quarter down to negative \$680.1 million in the fourth.

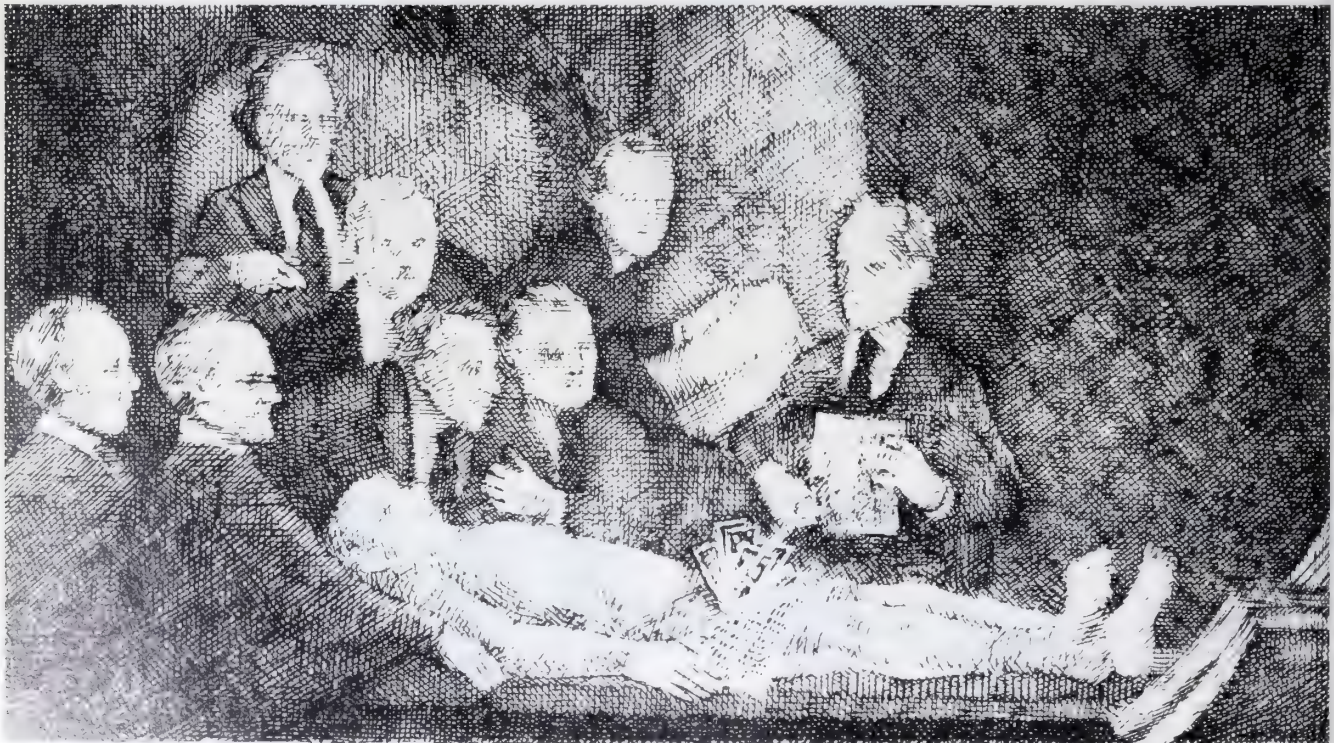
Paul Pappadio of Gintel & Co.'s Capital Flow Trends was looking at those figures. "The commercial airlines were cutting their expenditures," he reasoned. "Boeing was going heavily into negative cash flow because of two new generations of aircraft. If Boeing wasn't going into negative cash flow, even with business turning bad, its recovery would be better."

So, in spite of the heady earnings, Pappadio advised selling the stock. You know the end of the story. Since the last quarter of 1980 Boeing's stock has fallen from 44 $\frac{1}{8}$ to 19 $\frac{3}{4}$, a 55% drop.

As Peter Drucker observed in *Managing in Turbulent Times*, "The quotations on every major stock ex-

change—New York, London, Zurich, Tokyo, Frankfurt—correlate quite closely with cash flow and liquidity and very poorly, if at all, with the inflation-distorted earnings figures."

This is especially so in a liquidity crisis. Companies that borrow excessively in order to keep earnings high will eventually wind up hurting because of the fixed-interest cost burden. The same is true of companies that slow down their depreciation schedules. This borrowing may keep earnings up, but when time comes to replace the equipment, not enough cash will be available. Cash flow analysis—which adds depreciation charges back into earnings—under-





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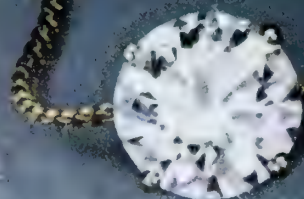


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Numbers Game

scores the point.

Above and beyond these problems, simple earnings figures suffer from inflation. In an inflated economy, the use of historical cost figures as a basis for calculating depreciation and inventory consistently exaggerates reported earnings. But since cash flow represents real cash—actual dollars a company can use to grow—it is not affected by inflation.

So if the cash flow trend goes south when earnings are going north—watch out. Something is wrong.

Unfortunately, all too many investors as well as a large number of Wall Street analysts rarely analyze the cash flow numbers. "The reason conventional analysts pick so many losers is that they see earnings per share as a cause instead of an effect," says Thomas Nourse of Nourse Asso-

"Quotations on every major exchange correlate quite closely with cash flow and liquidity, and with inflation-distorted earnings."

ciates, which tracks the cash flow of 2,000 major companies. "I see the fundamental financial health of a company—which can be seen with cash flow—as the cause, and the earnings per share as the effect."

Nourse is one of a growing number of stock advisers who are basing their work in part on cash flow. About a year ago (Sept. 28, 1981), FORBES asked him to look at 44 stocks whose price/earnings multiples were significantly higher than the market. Nourse found that cash flow was worrying for 26 of the companies. In the following 11 months, ending just a few weeks ago, those 26 companies had an average price decline of 15%, while the group with satisfactory cash flow had an average price gain of 1.2%. Considering how nervous the market was last year, that's not bad.

Nourse raised a red flag on the following companies one year ago: AM International, McLouth Steel, Nucorp Energy, Sambo's Restaurants, Saxon Industries, Seatrain Lines and Wickes. Guess what? They have all gone into Chapter 11.

But if it sounds like cash flow is a magic formula for predicting the stock market, that's not true either. You must also look at the state of the economy, the industry the company is in and other relevant facts about the

company itself. In a surging economy, for example, companies with weak cash flows can do well. It's when things turn sour that the direction of cash flow over time really counts.

How do you calculate cash flow? Here is Pappadio's system:

1) First, take the annual report and find the heading "changes in financial position." Find the "sources of working capital" figure and subtract from it all items that use cash, like increases in long-term debt.

2) Then, take the "uses of working capital" and do the same, eliminating all cash items.

3) Find the difference between the two results; that's "gross" cash flow.

4) Now, look under "components of working capital" and add up all the current assets except cash and marketable securities. If the total is positive, subtract it from the gross cash flow, since it's money that's already been used. If it's negative, add it.

5) Finally, add up all the current liabilities, excluding interest-bearing debt. If this number is positive, you add it. It's a payable, and the more payables you have, the more cash you have. If it's negative, you subtract it. Result: operational cash flow.

Cash flow can, of course, be hyped just like earnings. Says Dennis Beresford, of Ernst & Whinney, "Most manufacturing operations have some real estate they can sell off for a perfectly legitimate gain—but it's still a one-time deal. There could even be cases where a firm could sell off profitable operations, and that would keep both earnings and cash flow up. Or a company could defer cash expenditures, to keep its cash flow high."

Fortunately, these kinds of activities are generally disclosed in the annual report. A company may be able to hype earnings by changing its depreciation in a nearly invisible way, but if a firm sells off a subsidiary, that's going to show up clearly.

In any event, an investor who ignores cash flow in picking stocks is depriving himself of one of the most valuable tools in his arsenal. The fact remains that, on a quarter-by-quarter basis in the midst of a liquidity crisis, the average investor will probably find it worth the time to take the trouble to examine cash flow before making a decision to buy or sell. Among cash flow aficionados the story that comes up is of a giant retailer whose cash flow turned negative even as earnings soared ever higher. Most investors ignored the cash flow, to their later dismay. The retailer, of course, was W.T. Grant. ■

It's back to basics at Greyhound, under Chairman John Teets. Does anyone want to buy a \$2.3 billion food company?

Gentlemen, this is a bus!

By Paul B. Brown

LEGEND HAS IT that Vince Lombardi once called a meeting after the Green Bay Packers had turned in a particularly disappointing performance and said sarcastically: "Gentlemen, let's start from scratch. This is a football!"

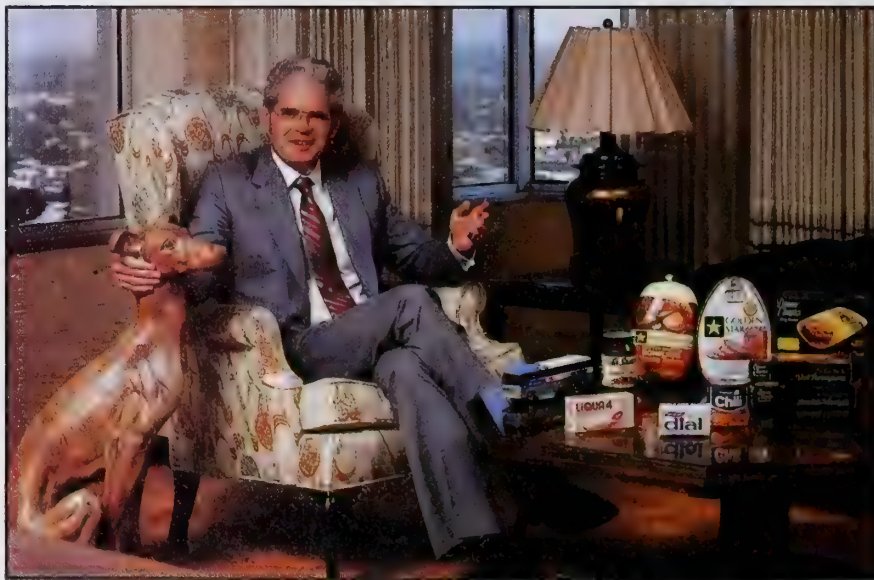
That's just the treatment John Teets has in mind for \$5 billion (sales) Greyhound. Teets, a 49-year-old with a food-services background, became Greyhound's chairman earlier this month after Gerald Trautman retired at age 70. But when he talks about "returning to basics," it's no mere halftime talk in the locker room: Major divisions are now on the block. Says Teets: "There are certain businesses that could be run better by someone else."

The \$2.3 billion Armour Food division and the \$600 million Armour-Dial consumer-products division (including Dial and Tone soaps) could be two such businesses. Although they account for 56% of the company's revenues, they contributed just 14% of corporate earnings. In addition to the age-old problems of the competitive, low-margin meat industry, Armour managed to create a few of its own through excessive backward integration and overstaffing. If you strip Armour Food and Armour-Dial away from Greyhound, the company's return on equity would jump from the 13.4% it has averaged in recent years, to nearly 20%.

So Armour is feeling the butcher's knife. Two of the three turkey-raising operations were sold earlier this year for about \$35 million. Teets has tried to sell the chicken operation as well. This is all part of his plan to be independent of commodity price fluctuations. "I don't ever want to have to

think about the hog cycle again!" says Teets with a laugh. In all, Teets plans to sell off at least \$100 million in assets—most of them in Armour Food and Armour-Dial.

But the cuts do not stop there. Greyhound has reached agreement to sell two needlecraft companies, and other divisions are also likely to be put on the block.



Greyhound Chairman John Teets

"I don't ever want to have to think about the hog cycle again!"

With the money he raises from all this, Teets is paying down Greyhound's debt—now at 30% of capital—and buying back his stock, which sold recently at 6 times earnings. Greyhound has bought back 2 million shares since last November and is looking to buy more.

Over the next three years Teets would like to boost Armour Food's return on equity to 15%, which would make it easier to sell. But there is not much of a market for a \$2.3 billion

meat company. So in the short term Teets will concentrate on boosting overall returns bit by bit each year. The results of the changes will not come quickly. Certainly not this year. Through the first six months, revenues were down 3.6%, but net income fell a third, compared with last year's. There are a number of reasons. Bus travel was down earlier this year, because of bad weather in January and February. To make matters worse, Greyhound and Trailways are in a price war. In addition, the airlines have cut prices in some of Greyhound's important markets such as California and Texas. Also, last year's earnings were aided by a \$17.7 million (pretax) settlement of litigation against IBM and \$8.4 million from the sale of big-ticket items like commercial aircraft and rolling stock coming off lease in Greyhound's leasing subsidiary. But even if those two extraordinary items are filtered out of last year's earnings, net income is still down 13% through June.

But Teets is not concentrating on the short term. He talks of creating the company he wants within the next five years. "As long as we don't

run off half-cocked, we'll be fine," he says. "This is not going to be a fire sale. We plan on getting at least book value for what we sell. We just want to lean down, be tougher in the marketplace."

The leaner Greyhound will have four parts. The first part is the bus manufacturing and transportation division that contributed 26% of revenues but 44% of income last year. There will also be the financial-services division—9% of sales and 33%

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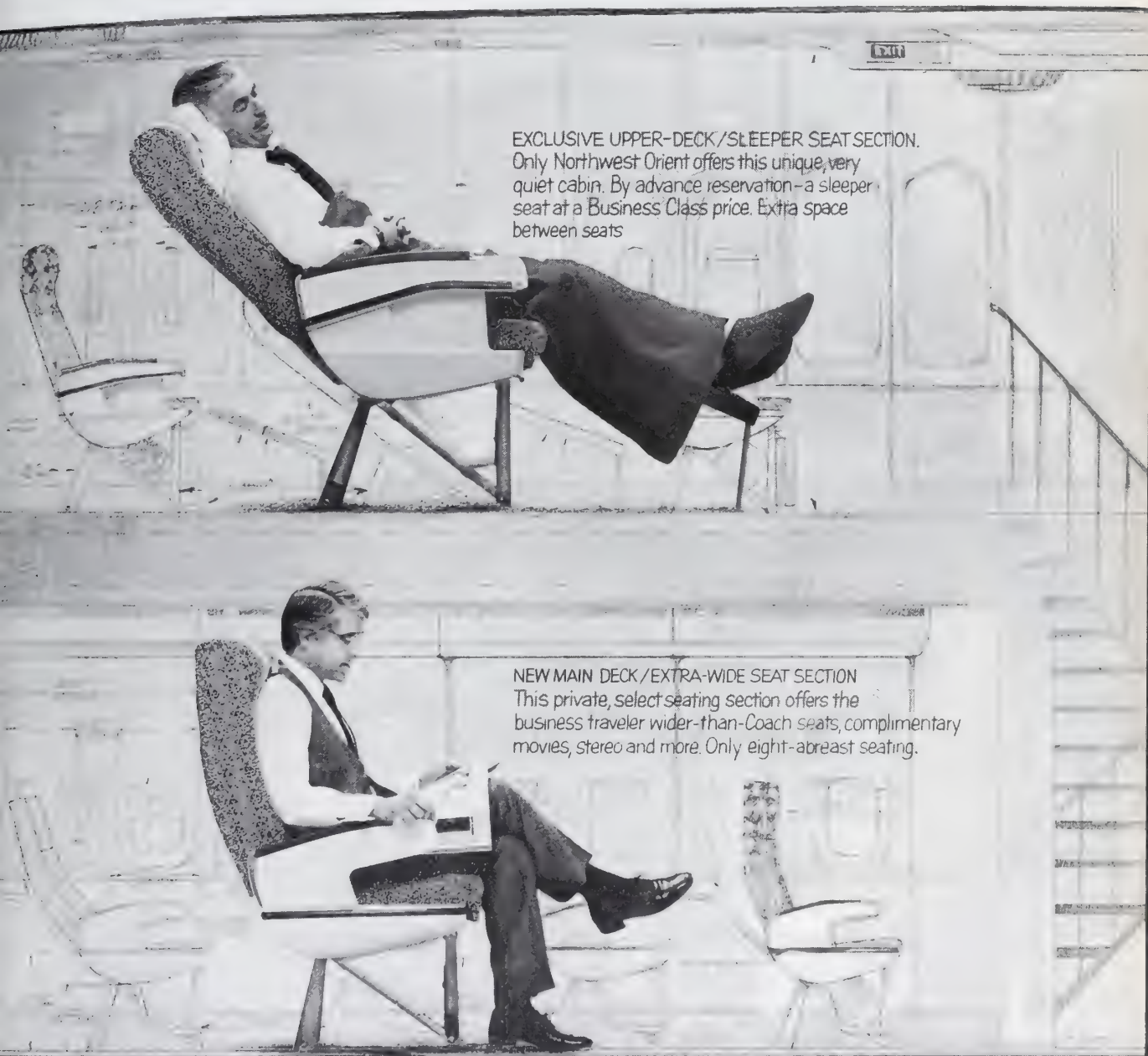
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of earnings in 1981—and a food division isolated from commodity prices. To upgrade the Greyhound food-products line, Teets says, the company is introducing value-added products like

a line of high-priced frozen dinners.

There also will be a major acquisition after 1984, to expand the consumer services group. Unless, of course, Teets strengthens Grey-

hound's balance sheet so much in the meantime that he attracts tender offers. But those are the kinds of compliments you have to expect when you go on a severe diet. ■

A lack of incentives, more than a lack of tractors or fertilizer, explains the disheartening failure of African agriculture.

True in Africa, true in Iowa

By Jerry Flint

FROM 1973 TO 1980 some \$5 billion in outside aid money was poured into African agriculture. There is not much to show for it. Farm output per capita actually declined 1.4% in the past decade. In Southeast Asia, for comparison, per capita farm output climbed 1.4% annually in the past decade.

What is wrong in Africa?

"You never say anyone does anything wrong. In the development business you talk about inadequacies and inefficiencies," says Elliot Berg. Berg is a University of Michigan economics professor and a consultant specializing in Africa. He is the principal author of a World Bank report innocuously titled *Accelerated Development in Sub-Saharan Africa*. That

report, which focuses on agriculture, is full of what he calls inadequacies and inefficiencies. Too much government, too much social engineering and not enough reliance on the market, not just by African governments but by Westerners who pass out aid money; this is what cripples African agriculture, Berg says, not lack of tractors or fertilizer. The Berg report, as it is informally called at the World Bank, is having its effect. Many of its recommendations are included in the bank's World Development Report,

issued just a few weeks ago.

"One of the things they did, or we did together, was to pour money into large-scale farming or state farms. That ate up a lot of the \$5 billion," Berg says. It was not merely that large-scale mechanization and irrigation were the modern ways, but that



Elliot Berg, whose ideas influence the World Bank

"Academics think that trickle-down doesn't work."

large government-run farms were "a way to eliminate inequality—you didn't have to deal with kulaks" (successful indigenous farmers).

The overall intent, in other words, was more than maximizing food production; it was social engineering. "Academics think that trickle-down doesn't work," says Berg, "that even if progress is being made, the poor aren't getting any." Letting larger farmers spearhead the introduction of new methods, Berg cites as an example, "has been frowned upon in recent

years," and by lenders, too.

What's more, government control of producer prices is common in practically all black African states. Often state agencies control the marketing and selling of fertilizer, seed and crops. Prices to farmers are kept low to subsidize food for city folk. Producers of export crops may get only 50% of value because the governments keep a hefty part of the profits for themselves. Berg recalls one African nation: "They set millet prices at one-fifth the free-market rate and then used soldiers to requisition it when farmers wouldn't turn it over. Independent traders were always being charged with illegal trading—no one was sure what that meant—which wrecked the trading system." He states a simple proposition: "If a farmer won't get more from his work and his yield, he just won't do it." True in Africa, true in Iowa.

African nations are not all alike, of course. They vary from giant Nigeria on the Atlantic, with perhaps 90 million people and potential oil production of 2 million barrels a day, to arid

Somalia on the Indian Ocean, with 4 million people and an economy based on camel exports. But farming policy mistakes are common across the continent in which four of five live from the land and population growth is a rapid 2.7% a year.

Berg recalls that the Ivory Coast, one of the best-run African states, planned to put 40% of its 1975-80 agriculture investment money into ten huge sugar mills and cane fields to produce 500,000 tons a year. "Carpetbaggers selling sugar mill and cane equipment came from all over the world with their promises." He figures maybe 100,000 tons will actually be produced eventually.

"In the Sixties and Seventies Ghana built state farms. No output ever came of that. They became employment agencies." The big farm projects depend on government agencies to deliver seed and fertilizer and pesticide on time, and that is not easy. "When you depend on the Ministry of Public Works for the spare part for your well,

you will never have any water."

Berg, whose firm, Berg Associates, is in Alexandria, Va., doesn't discount African agriculture's natural enemies: generally dry, rain-fed, unirrigated land and the absence of technology necessary to improve yields under these conditions; infestation like the tsetse fly that bars the use of some 10 million square kilometers of higher-rainfall land; droughts; the scarcity of trained people; enormous distances and poor communication, plus the disruptions of civil strife.

There are even reasonable explanations for some of the government intervention that cripples production. At decolonization, the trade was controlled by foreigners or nonblacks. The new nations wanted control and speeded-up development. The resulting ineffective bureaucracy is not an African exclusive.

That said, Berg insists that great improvement in black African farm production is possible and that the key to it is releasing the energy of the ordinary farmer. "What is most needed," he says, "is simply that governments give these farmers greater scope to increase their incomes."

There are a few signs this is happening. Agriculture experts at the World Bank are beginning to repeat Berg's message, and there are indications that it is being heard. Berg is just back from Somalia, where in the past farmers could sell only to the state monopoly and limits were put on their grain storage. Recently he found that these rules have been discarded in some parts of the country. "In one year you see a doubling of corn acreage, new grapefruit production and new banana plantations. It's a quiet revolution." And long overdue. ■



Buying and selling in the Ivory Coast
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Norway's gas reserves could eliminate the threat of Europe's dependence on Russia, but would Europe pay the premium required by Norway's social spending?

A "NATO premium" for Norway's gas?

By Lawrence Minard

IN ITS CAMPAIGN against the Soviet gas pipeline, the Reagan Administration has several times mentioned to its Western European allies the Norwegian alternative: gas from Norway's rich reserves to fill Europe's energy needs in the middle—and late—1980s.

But Norwegians, other Europeans and U.S. oilmen working in Norway all agree that Norway cannot bring its reserves to market in time. Why? In

over 200 bcm—enough gas to offset two-thirds of Europe's new Russian commitments, assuming a ten-year depletion rate. Another new field, Shell-operated 31/2 (or "Troll"), probably holds 1.6 trillion cubic meters. And four very promising fields in Norway's northern North Sea have barely been explored. All told, Norway's gas reserves probably total over 4 trillion cubic meters, enough to meet Western Europe's likely import requirements for over 20 years.

The problem: Throughout the

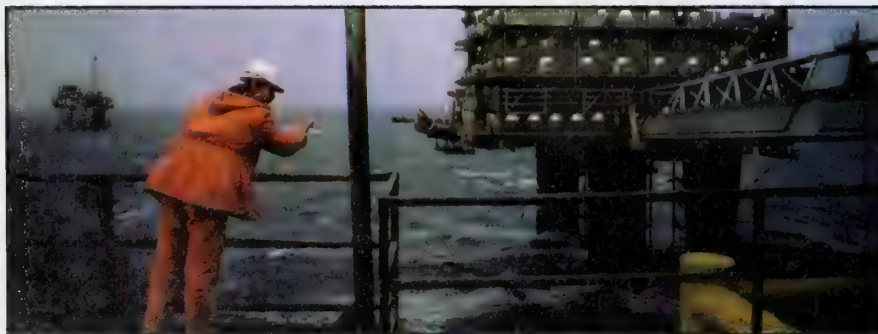
fired. Today, energy prices are falling, and cheap Russian gas overhangs the market. To have had gas available for delivery to Europe by 1985, Norway should have begun field development in 1976 or 1977. That's how long gas project lead times are. So when Moscow offered 40 bcm a year of Siberian gas to meet Europe's import needs in the latter 1980s, Norway had only 6.7 bcm to offer (from its Statfjord field). The Europeans, in effect, were forced to diversify eastward. Norway was left at the mercy of the 1990s market.

Did Norway blunder and let Russia walk away with gas contracts worth \$8 billion a year? The deputy director of Stavanger-based Petroleum Directorate, Iraqi expatriate Farouk al-Kasim, replies: "What is to blame is that we have not been able to see that energy development is a continuous process—that not taking decisions just pushes problems ahead of you, and that you will meet them with greater magnitude in the future."

Norway sees the need to develop its resources and is accelerating offshore activity. Last year alone, 11 new licenses were granted; the \$3 billion Statpipe gas gathering system for the Statfjord, Heimdal and Sleipner fields was quickly approved. "Suddenly the government is kicking hell out of us to bring in as much as we can," says a U.S. oilman, "but they're about to start paying for their past sins." He means that, given Norwegian costs of development, it isn't at all certain Norway can win the market of the 1990s.

Talk of problems and Norway should be incongruous. A ruggedly beautiful country of 4.5 million people, Norway exports five barrels of oil and gas for every one it consumes. Its energy wealth has financed an enormously expensive welfare state—virtually free health care and education, a job for everyone who wants one where he wants one, four-week vacations for everyone. Uncompetitive industries are lavishly subsidized. Unemployment is just 2%. The country's 100,000 farmers are guaranteed a minimum wage of \$11,000 a year to stay on the land, at a cost last year of \$1.2 billion, around a third of its expected oil tax revenues.

But Norway's palmy days are gone. Oil prices are falling, and with them Norway's ability to keep its mix of capitalism and socialism balanced. Last year the government forecast it would garner \$26 billion in oil and gas tax revenues during 1982-85. That has recently been slashed to \$11 billion and forced Norway's new (but minority) Conservative government to renege on election promises to cut Nor-



Exploiting Norway's rich Frigg field

Will NATO allies pay for expensive new fields in the 1990s?

the answer lie lessons for all nations: about energy development, about Russian competition and about a nation living beyond its means—even means as extraordinary as Norway's.

Western Europe will have to import at least 110 billion cubic meters (bcm) of gas a year by 1990 and 170 bcm by 2000, according to International Energy Agency forecasts. As things stand now, Russia will supply 56 bcm annually if its pipeline from Urengoy in Siberia is built, with financing and technical help from the West.

Norway has been—is—eminently endowed by nature to meet much of that European demand. Its recently explored Sleipner field alone holds

1970s, successive Norwegian Labor party governments (with the voters' blessing) pursued a cautious, keep-it-in-the-ground policy toward developing the country's mineral wealth. Norway's workers and businessmen alike argued that a sudden influx of oil wealth would swamp the economy with debilitating inflation—the "Kuwaitization of Norway," they called it. And, since energy prices could only go up, it seemed logical to leave the reserves in the ground. So for four crucial years, 1975-78, Norway awarded just 8 new exploration and production licenses (of 62 licenses awarded during 1965-81).

But the go-slow approach has back-

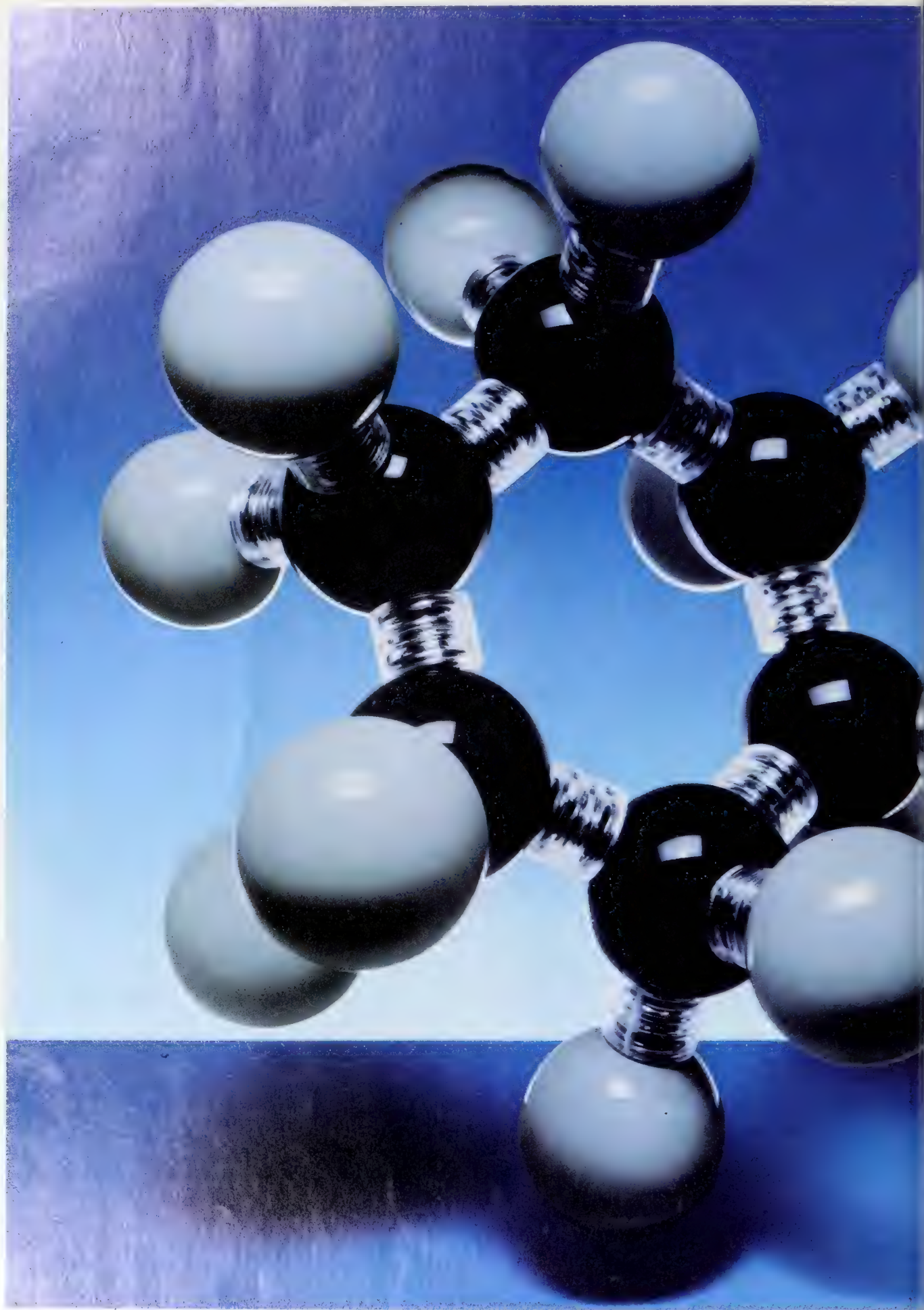


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way's high personal income taxes (70% on a \$20,000 salary).

Worse, Norway's older, relatively low-cost Ekofisk and Frigg fields are depleting fast. Even counting a half-dozen fields recently put, or soon to be put, into production, Norway's production will plummet after 1989 or 1990. The only way to keep the welfare state rolling is to open its huge newly discovered fields. But that means selling, this year and next, gas priced substantially above potential Soviet supplies because of the high cost of Norwegian North Sea develop-

ment. The base price for the 6.7 bcm a year of gas recently sold to European consumers from Norway's Statfjord field is at \$5.50 per million Btu (\$5.31 per thousand cubic feet, standard U.S. measure), compared with the average \$4.80 per million Btu for which the Soviets have sold their Siberian gas.

The fact is, Moscow may control, in strictly cost and price terms, the price of gas in the years ahead. The Urengoy pipeline project has been scaled back from two strands to one 56-inch-diameter pipe, able to deliver around 29 bcm a year. But with one strand in

place, it would be relatively cheap and easy for the Soviets to lay a second (or third) strand alongside. So Moscow will in all likelihood be an aggressive competitor for Europe's gas needs in the 1990s, especially since Moscow's planners can peg Russian products at whatever price is necessary to earn the hard currency the ailing Soviet economy so palpably needs and will need in the future.

Norway's hope is that Europe will pay a premium for the privilege of cooking with NATO gas. The first major test of that hope will take place

later this year, when the Norwegians begin in earnest their attempts to sell Europe around 15 bcm a year of gas from the new Sleipner field, from which deliveries could commence in 1989 or 1990. An Exxon executive told FORBES that the Europeans will have to pay Statfjord-field prices—currently nearly \$6 per million Btu. Yet Norwegian gas now on the market for considerably less is going begging.

It is crucial for Norway that they do so. If the Europeans don't ante up the NATO premium for Sleipner gas, Norway's gas development could be jeopardized. "Sleipner is the bridge," explains Henrik Ager-Hanssen, senior executive vice president of the state oil company Statoil, between the fast-depleting fields in the southern sector of Norway's North Sea and the big new fields to the north. Says Ager-Hanssen: "We can't begin negotiating on the 31/2 field [Shell's Troll] until we enter into contracts on Sleipner."

Norway could, of course, make its gas (and oil) more competitive by one simple expedient: lower its 85% tax rate on oil and gas—or cut back on the welfare state benefits that have helped make offshore Norwegian production so expensive.

But is that likely? Recent legislation, for example, mandates that all new drilling platforms in the Norwegian North Sea provide one bedroom for every two workers. That is one reason a platform that cost \$200 million in 1975 now costs \$1 billion. "The Russians aren't driving up Norway's production

Close to the market

Norway's oil and gas reserves are better situated than Siberia's to meet Europe's energy needs. But with politi-

cal pricing and a far lower standard of living to support, Russian gas, landed in Germany, is cheaper.



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**CE COMBUSTION
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The Energy Systems Company

costs," grouses a U.S. oil executive in Stavanger, "the Norwegians are, with their very fine standard of living."

The American oilman knows the dangerous game the Norwegians are playing: "If you have an 85% tax rate, it's easy to justify doubling wages or paying \$1 billion for a new platform, because the government pays for 85% of it. But if you fall into that philosophy and prices don't keep rising, you're in big trouble."

Complacency gives the U.S.S.R. a valuable market in Western Europe. Says a diplomat in Oslo: "A hausfrau doesn't care where her gas comes from, just how much it costs."

Will the Norwegians cut production costs and social expectations? Several Norwegian and foreign businessmen report a new mood of realism is dawning. But slowly. Egil Bakke, director of the Federation of Norwegian Industries, says that when his group suggested a \$1.5 billion cut in social spending so that personal and business taxes could be reduced, "we got slaughtered. We haven't a friend in the whole country."

Statoil's Ager-Hanssen believes the Europeans will pay extra for Norway's gas. "You'd expect there to be a premium associated with gas from an area considered to be stable." Even if they don't, Norway won't become another Mexico. On top of its 2,000 bcm gas reserves, Norway has over 1.2 billion tons of oil reserves, enough to maintain last year's total production for 24 years. Says Deputy Energy Minister Hans Erik Ramm, "We have oil as well as gas, you know. We can hold our gas and wait until it gets a better price. We are in no hurry."

Such complacency is allowing the Soviet Union—as economic competitor—to gain a valuable market in Western Europe. Says a Western diplomat in Oslo, "The Munich hausfrau doesn't care where her gas comes from, just how much it costs." But the Soviet Union is more than an economic competitor, it is the political adversary of the West. And by helping the U.S.S.R. build a gas distribution system that enables Moscow to undercut Western gas prices in the years ahead, Europeans may find themselves forced to rely even more on supplies from the East. President Reagan sees that, but his position is weakened by the Norwegians' love of comfortable, welfare-state living. ■

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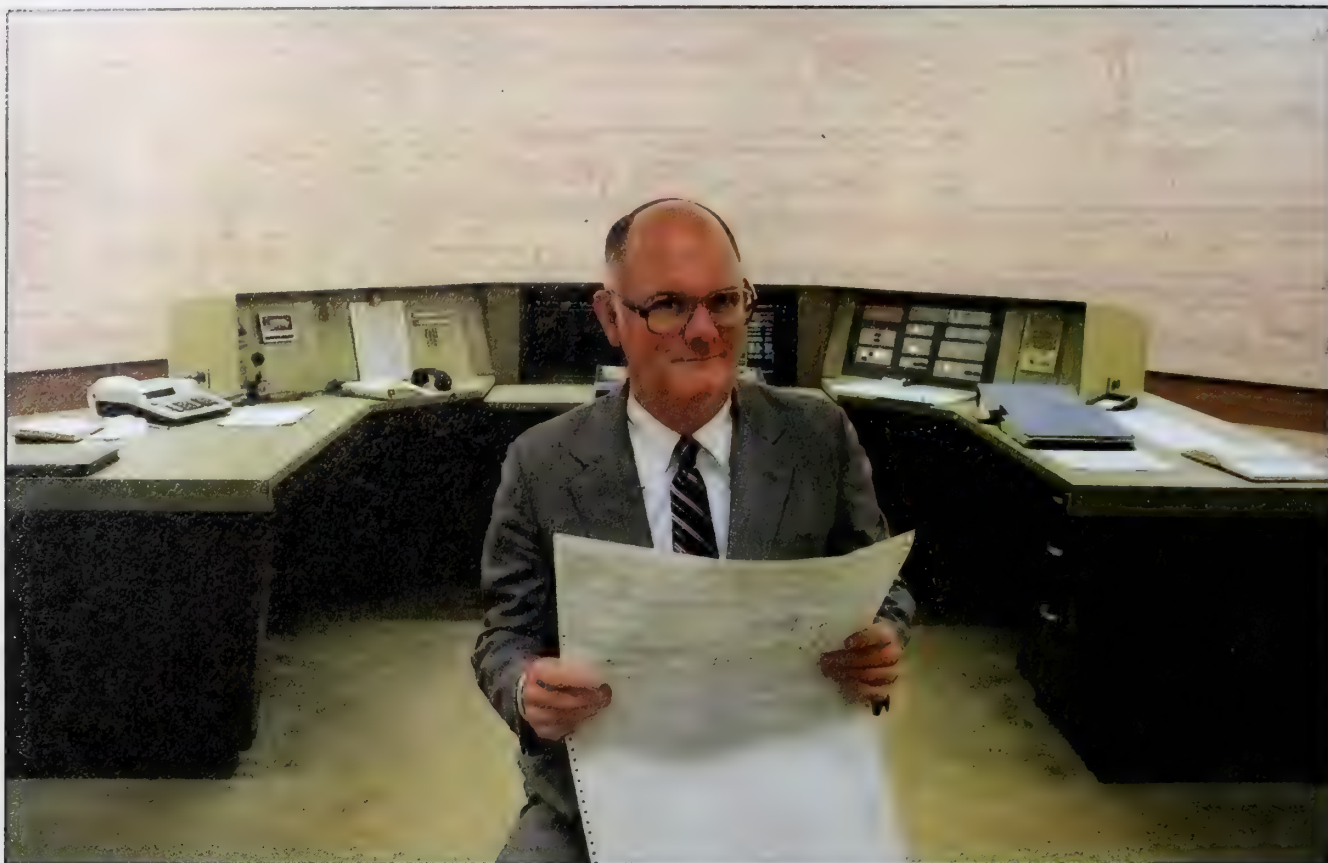
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San Diego

VP president William Berry, a 25-year utility veteran
Might the monopoly that nurtured him no longer be natural?



If you like what deregulation has done for airlines and trucking, read how Veeco's Bill Berry wants to transform electric utilities. No wonder that most of the industry is in shock.

Live wire

By Pamela Sherrod

WILLIAM BERRY is nobody's idea of a wild-eyed intellectual. With his tall frame suited in gray, his close-cropped hair and earnest manner, he would fit Central Casting's requirements for the president of an electric company—and, at age 50, that's just what he is: president of Virginia Electric & Power, the U.S.' eighth-largest electric utility. An engineer, Berry started out in power

plant operations and rose at Veeco in the time-honored manner.

Berry, nevertheless, has come up with a prescription for his own industry so radical that it strikes others in the business as downright ivory-towerish. Academics have been chatting among themselves for over a decade about deregulation of electric power. But Berry is first among his peers to argue openly for shedding the fetters—and protection—of regulation for free competition. "At a meet-

ing of 20 utility executives the only people who agreed with me were an environmentalist and a regulator," Berry recalls unabashedly.

Deregulation is all the rage in Washington, of course, and already several industries—most recently telecommunications—have been opened to the winds of the open market. But, according to Berry and others, it's only the increasingly dire predicament of the electric industry over the last decade that now makes it,



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**Metropolitan
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...for losing its favored regulated monopoly.

In the good old days, the power business acted just as a natural monopoly should. Because the industry's economies of scale rendered competition uneconomic, utility companies were granted monopoly over their service areas. In exchange, they accepted a regulated return to protect the consumer from being charged too much.

This cozy setup began to unravel when building ever-bigger plants no longer provided ever-cheaper power. Then came inflation, and bounding fuel and construction costs. Screaming consumers discouraged regulators from giving utilities sufficient rate relief. The result: Industry return on equity fell, stock prices plunged along with debt ratings and short-term borrowing soared. Today the capital squeeze is so tight that many utility executives don't want to build new capacity and, despite cost-induced conservation, experts fear power shortages in the next decade.

Bill Berry was pondering this dismal state last year while gazing out of a plane window on his way from Richmond to Wall Street. No matter what the generosity or stinginess of regulators, he concluded, the cost of electricity under regulation is higher than it needs to be. Why? Because generating plants don't operate at optimal efficiency when meeting the demand of just one utility. Energy sales among utilities are limited. New capacity is not constructed where and by whom it can be built most cheaply.

Berry became a born-again believer in deregulation, and his solution is drastic. He calls for breaking up today's vertically integrated electric companies into their three separate components: generation, transmission and retail distribution. Power generation would be open to competition, with free entry to all comers and no obligation to serve. These deregulated generating companies would sell their electricity to regulated distributors via regional energy brokers who would own the transmission systems. "If there's anything unique to my scenario, it's the role of the energy broker," Berry explains. "He'd be like a specialist on the New York Stock Exchange, making short-term and long-term markets for power and eventually a futures market."

In Berry's brave new world, price would play its traditional role of balancing supply and demand. Generating companies would invest in new plants only if they thought they could earn a good return, while distributors would bid up the price of electricity if

they felt current capacity wasn't enough to go around in the future. Efficient producers—be they of coal or nuclear, solar or wind power—would win rewards, while others failed.

Adam Smith would approve, but even Berry agrees his scheme has problems—as critics from within and without the industry are quick to note. How, for instance, could anyone finance a billion-dollar power plant without take-or-pay purchase contracts from distributors? And if the tie between regulated distributors and the generating companies that sell to them is so close, is there enough competition to justify deregulation?

There are lots of technical questions, also, raising the specter of blackouts. "You can't operate a sys-

Berry's solution is drastic. He wants to break up utility companies into their three parts: generation, transmission and distribution. The first would be competitive and open to all comers.

tem reliably if anyone can take energy from a line or begin pumping it in," says W.S. White, chairman of Ohio's American Electric Power. A staunch opponent of deregulation, White thinks it is folly to have no one responsible for security of supply.

Some academicians, on the other hand, think Berry's scheme doesn't go far enough. A group at MIT thinks that the technical questions in divesting power generation can be solved, but it would have consumers see the spot price for energy and change their usage accordingly. Another economist, Walter Primeaux of the University of Illinois, has studied 27 U.S. cities that already have electric utility competition—including Lubbock, Tex. and Bay City, Mich., where two sets of wires run down the same streets. Though his results are controversial, Primeaux says that electricity there is cheaper than in comparable communities and Berry is wrong in assuming that distribution has to be a natural monopoly.

If you are getting the idea that there's no consensus about deregulating this industry, you are right. The political stumbling blocks are huge. First, Congress might have to repeal the Public Utility Holding Co. Act (FORBES, Feb. 1) and figure out how publicly owned entities like TVA would compete. Beyond that, everyone agrees that in the short run prices would jump with deregulation, even

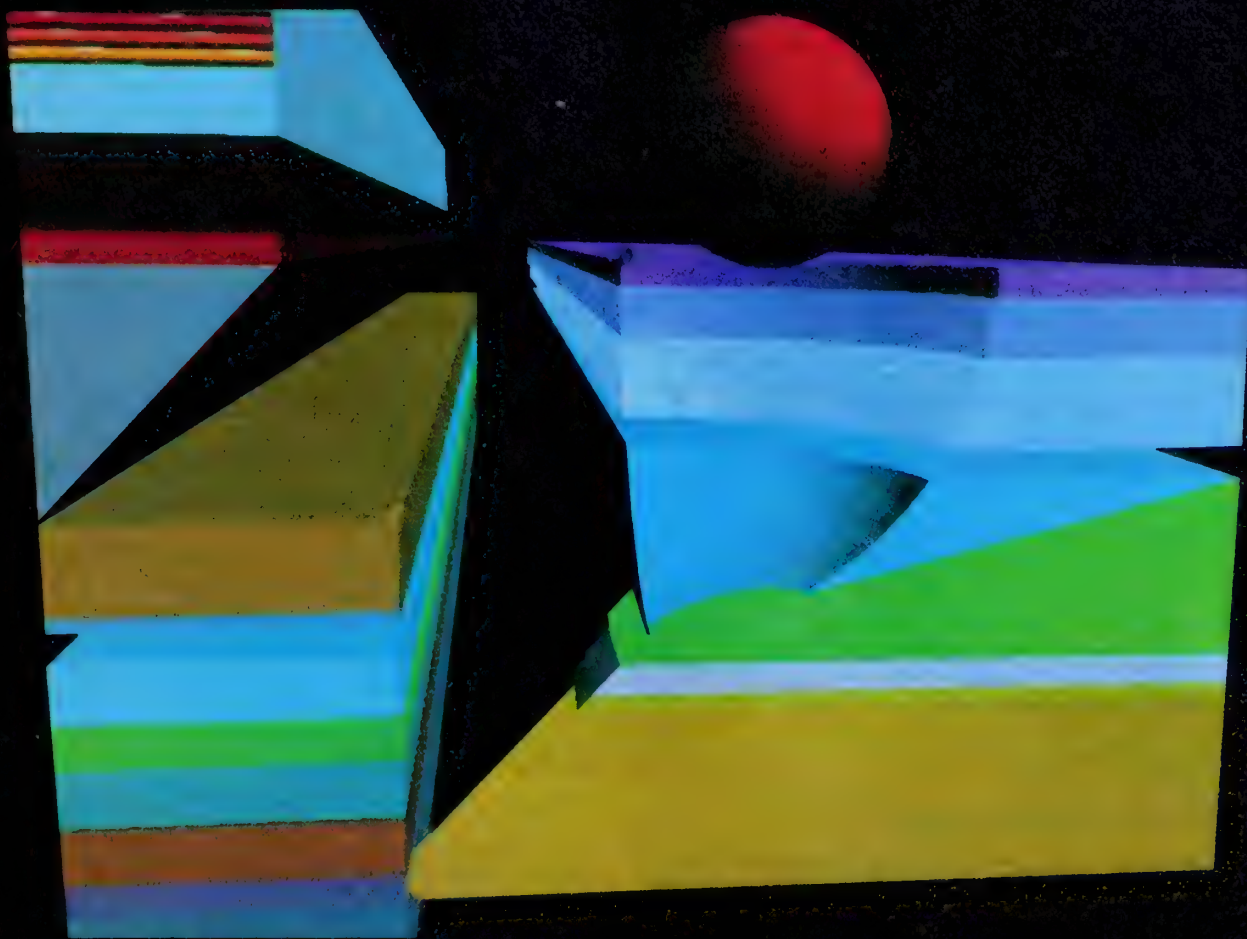
though proponents are confident that, in the long run, they would be lower than under the present system. This issue "just doesn't have the same public relations zing that the airlines had," says economist Alfred Kahn. In addition, the financial complications of divesting generating facilities would make the AT&T breakup look like child's play.

Does this leave thinkers like Berry spinning their wheels while the industry sinks further into a financial morass? Happily not. The Federal Energy Regulatory Commission, under Commissioner David Hughes, is devising experiments to provide additional empirical evidence for the debate. FERC is far from advocating divestiture but wants to expand bulk power sales among utilities. "It's a way to make more power available from existing facilities," Hughes explains. FERC, which now regulates inter-utility sales, is negotiating with utility groups in Florida, Kansas-Missouri and in Vepco's area about lessening price regulation if free markets can develop. These experiments, which may be in effect within a year, go beyond the existing power pools in places like New England and Pennsylvania. There utilities mostly sell power to each other only on an hour-to-hour basis.

Self-interest, of course, is what makes free markets work, and Berry can already see how a freer market in bulk power could benefit Vepco. Right now Vepco buys cheap coal-fired power from adjacent utilities near Midwestern coalfields. But the price gets too high if Vepco wants to buy power from utilities that aren't right next door because the intervening utilities ask for a piece of the action under an anachronistic industry practice called "split savings." Under the FERC experiments, the intervening companies might be paid only for the use of their transmission lines, leaving more of a bargain for the actual buyer and seller.

It's not clear how Vepco would fare under Berry's more radical scheme, but Berry says that's not the point. "I have no ulterior motive. Deregulation just makes sense from an intellectual standpoint," he says. All the same, he admits two immediate, more practical motivations. First, saying that regulation is obsolete could scare the regulators into stopping their starvation of utilities. Second, Berry's championing of the free market sends the signal to Vepco's own consumers that the company doesn't need to hide behind regulation. Even a utopian idea, it seems, can have down-to-earth benefits. ■

The Integrated Office



Prepared by the Gartner Group, Inc.
Information Industry Consultants
Stamford, Connecticut
Under the direction of
Kenneth A. Smalheiser



The Integrated Office

Office automation has an image problem. Among the 50 million office workers in this country, it evokes reactions ranging from fear to rampant enthusiasm. To vendors of office-oriented systems, it is a rallying cry for an immense new market of small computers and terminals linked into giant networks.

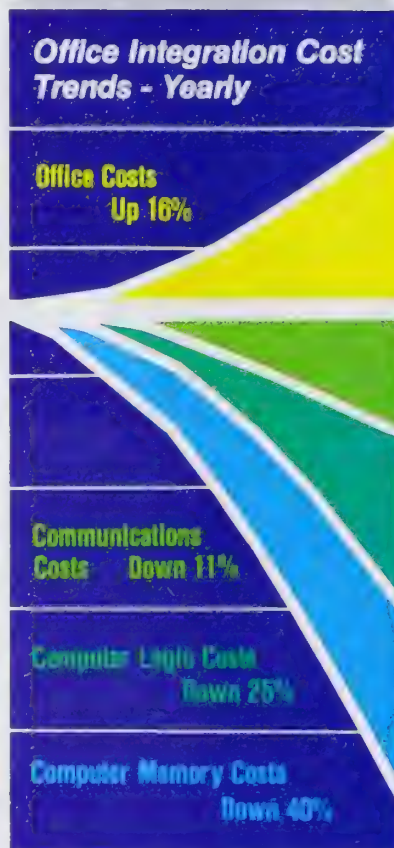
The ambiguity of the term "office automation," however, is the real drawback. It is terribly non-specific, justifying a wide variety of interpretations. Recently, more and more vendors, especially those offering systems approaches to office automation, have begun to use "office integration" as the more accurate term to describe this evolving phenomenon. Office integration should be viewed as a network of computer and communication systems designed to improve access to information and to enhance human communication. Its goal is to help people work more effectively, not to replace them with intelligent robots.

With this as a working definition, we need to understand a great deal about what goes on in our offices, how people use information and communicate with each other so that we can productively apply some of the choices available in the rich spectrum of technology. This report is designed for all levels of management because we feel that the issues involved in automating and integrating office functions can be influenced by virtually every executive. And considering the corporate payoff, the managers who can influence the office automation process, at either the organizational or departmental level, are likely to be rewarded by their firms.

THE KEY ELEMENT: PLANNING

A common problem with office systems planning is its reliance on the "data-processing (DP) model" as a

Design & Image Generation: Robert E. Moran
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**Through the 1980s, spiraling office costs and plummeting hardware costs will provide the greatest impetus for increasing productivity through office integration.*

convenient starting place. It's natural to think that such systems can improve office activities. The difficulty is that mailing thousands of bills is very similar to making widgets on a production line. Office activities, by contrast, are varied and unpredictable and tend to be *decentralized*, unlike the assembly line environment that works so well in "back office" data processing.

Another difficulty stems from the assumption that everyone working in the office needs the same type of support system. In truth, there are no universal systems. A manager's requirements are communications ori-

ented; the engineer needs programs that help with complex equations; the secretary wants an efficient text-processing system.

Again, it's back to planning. Planning for sophisticated office systems should include the whole fabric of the organization: the overall business objectives; which areas are growing most rapidly; what department is having particular difficulty dealing with its workload; which individuals can benefit most from computer and/or communications support and what kind. If it so exacting, it is.

Planning should also include training and reallocation of necessary human resources as well as evaluation of the impact on facilities resulting from the widespread introduction of electronics.

The potential rewards of office integration make the efforts worthwhile. Aggregate annual office costs are approaching a trillion dollars and are growing by 16% per year. Therefore, serious evaluation of any approach that can help reverse that upward spiral is warranted—and office integration represents the most promising possibility. That is why we think executives should familiarize themselves with the issues.

WHAT ARE THE OPTIONS?

The last 12 months have been exciting albeit confusing, (even for people who spend all their time analyzing system announcements) because so many major manufacturers have brought forth the answer to the automation dilemmas. Large computer companies like Burroughs, NCR, Honeywell, Digital Equipment Corporation, and Hewlett-Packard have flooded the market with new products for the office.

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The Integrated Office

the industry, keeping in mind the youth of automated office systems. For example, we have become accustomed to TELEX/TWX networks (actually, the first "electronic mail") and even fairly primitive types of word processing such as IBM's Mag Card typewriters have been with us since the 1960s. Other office automation equipment, such as copiers, dictating machines and printers have been around even longer. But the real progress in electronic office communication and information systems dates back less than five years.

Early office automation pioneers like Wang Laboratories and Xerox found themselves initially doing more "missionary work" than selling. Other emerging companies, like Lanier, NBI and CPT concentrated on word processing, the part of the office that seemed most easily amenable to equipment sales.

Slowly, the momentum began to build. IBM quietly developed its strategy around what it called the "Enterprise System"—an interlocking series of capabilities visualized as a means of providing total information support in an organization (or "enterprise") whether it was in text, data, voice, graphic or image form.

At about the same time, microcomputers began appearing more frequently on desktops. Prices dropped to the point where \$4,000-\$6,000 could buy a highly functional computer. Microcomputers using VisiCalc-type software to develop budgets and to do financial analyses became commonplace though they were often strenuously resisted by more traditional data processing (or accounting) executives, who viewed these small systems as a step toward chaos (and, sometimes, a threat to carefully-built empires).

These "pirate" micros, often appearing as "word processing equipment" on requisition forms and occasionally smuggled into depart-



**Source: Gartner Group Top 100 Almanac*

ments, demonstrated that a small investment could yield large returns and eliminate arduous manual tasks. A natural reaction was to assume that if everyone had one of those "things," then the whole company could work faster and better.

Hence, the emergence over the last few years of "total" office systems. In effect, these are company-sized tool chests that provide office workers the electronic tools they require to accomplish their jobs. Text-oriented tools satisfy clerical needs, computational tools are for scientific/engineering workers, and the beginnings of management-oriented tools, which address ways to communicate more effectively and aid in decision making, are for upper-echelon workers.

But the problem wasn't solved quite yet. Executives and managers understand that you can't buy the same tool for every worker. Just because some employees benefit from access to a screwdriver, others may need wrenches, hammers or saws.

THE CLERICAL-SECRETARIAL LEVEL

It's fairly easy to view word process-

ing as an extension (and improvement) of typing on the ubiquitous IBM Selectric.

Vendors who initially specialized in word processing soon found the First Great Truth of office automation: people in offices could care less about technology; they want systems that are easy to work with. It was a whole new world for designers accustomed to the high technology, data processing environment, populated with computer programmers and systems analysts. With the cost of computer logic scaling downward, designers could afford to build in what have come to be called "user-friendly" features. As a result, they developed word processors that could be learned in a matter of days, instead of the months and years required for data processing proficiency. The key lesson to be learned was that systems which contained sophisticated hardware and software could also be readily used by non-technical people.

The remaining hurdle was cost. Five years ago, a word processor cost \$14,000-\$20,000—prohibitively expensive unless its savings potential could be clearly demonstrated. Fortunately, technological improve-

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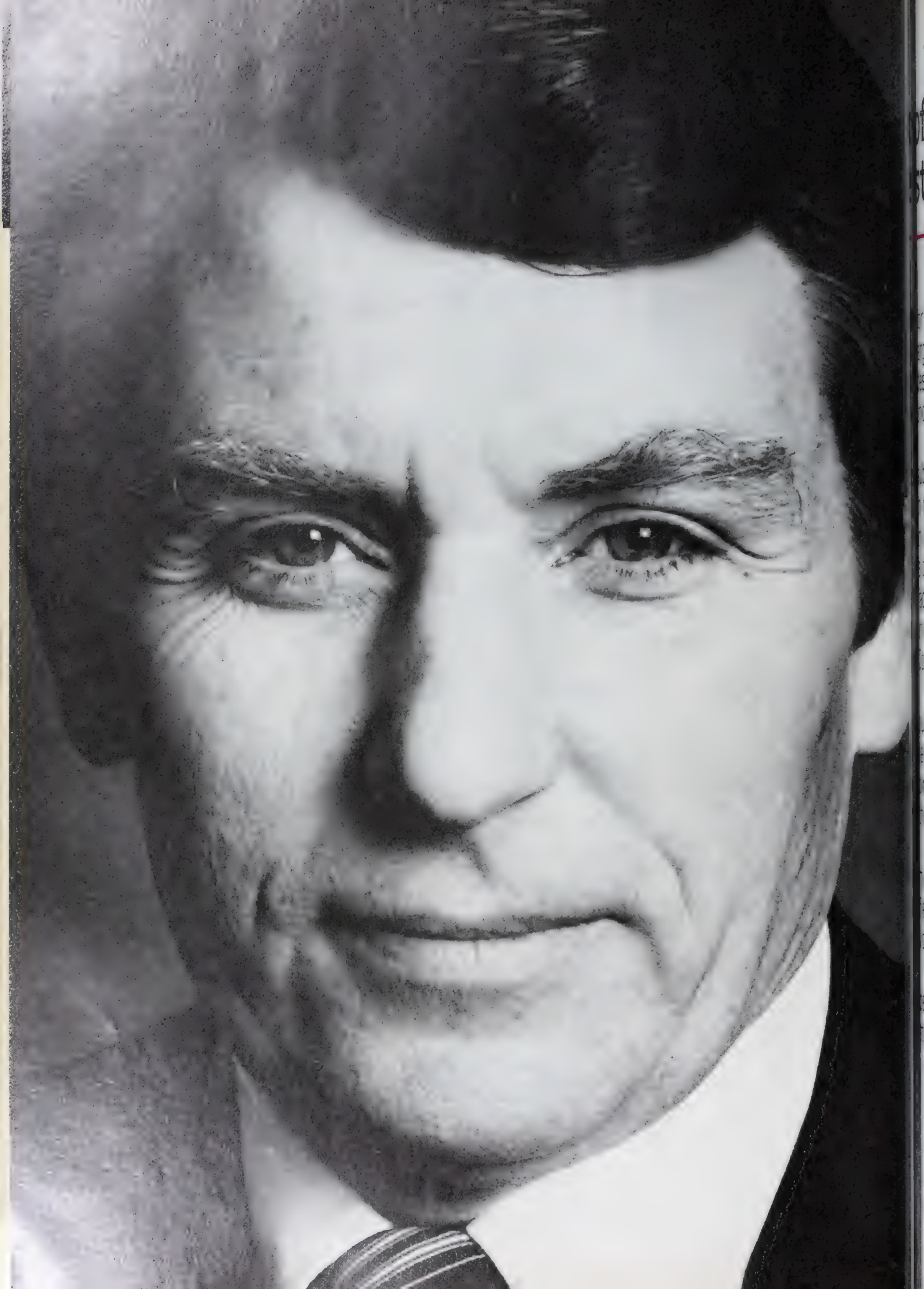
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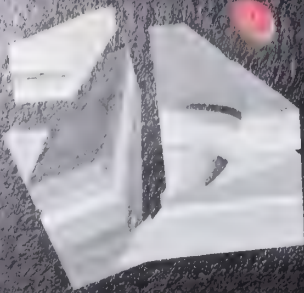
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ments (and competitive pressures) led to a series of cost reductions culminating in IBM's introduction in 1980 of the "Displaywriter," a product that reduced the entry-level for word processors below \$10,000. Soon after, Burroughs, Honeywell, Wang, DEC and a number of other vendors were all offering "_____ writers" at about the same price.

Today there is a wide variety of product choices. Companies like CPT still offer specialized word processing equipment for intensive text-production jobs at above \$15,000. Additionally, virtually all microcomputer vendors have added word processing software, dropping the level to around \$5,000. While the capabilities of this software has traditionally been inferior to secretarial-oriented "heads down" word processing, this limitation is now eroding; DEC's recently announced DECmate II is a full-function secretarial tool at microcomputer prices (below \$7,500).

Even lower-priced are the newest entrants offering systems that use existing electronic typewriters as the keyboard/printer component of the word processor, typically selling the processing/storage part for under \$5,000. One example of these hybrids is Syntrex' "Aquarius II," which operates in tandem with IBM and Olivetti typewriters.

What about the other tasks secretaries and clericals perform? An example is from our telephone-maniac business environment, where a good deal of time is devoted to answering phones and taking messages for others. In fact, good phone skills are highly valued in a secretary. At least a partial answer to this problem lies in "voice/mail" systems that can store phone messages to be forwarded to someone else in the organization along with comments added on the way. The same message can be "broadcast" to a number

of departments from one spoken message.

Voice/mail systems are offered by Wang, IBM and ECS (Richardson, Tex.), among others. They are not cheap (\$200,000 is a typical figure) but should theoretically go far in eliminating the dreaded "telephone tag" and downloading telephone monitoring requirements. Obviously, such systems are only beginning to penetrate the business community, and would benefit from some further cost and price reductions.

Perhaps the most publicized such hardware is produced by Xerox, which caused a sensation with the announcement of its "Star" workstation last year. "Star" is a specialized system that incorporates very good graphic capabilities and a hand-held "mouse" (a device that allows the user to move around the display screen) to point at pictures on the terminal, instead of typing in word commands. For example, to send a message, the pointer is moved to the pictures of an out-box and a button is pressed. This is an elegant refinement, but the cost is also in the luxury class—the effective price exceeds \$17,000 per workstation.

The emergence of the worksta-

tion concept is very well exemplified by Convergent Technologies' success story. A little over two years ago, the company was started by former Intel employees who perceived the market for high horsepower systems able to be linked through networks which share expensive peripheral equipment, disk storage units and high-speed printers. The perception was accurate, and Burroughs, NCR, Safran's Thompson-CSF, and a host of smaller companies have all m-

THE PROFESSIONAL-TECHNICAL LEVEL

If office employees generally pursue a diverse set of goals, then professional/technical workers complicate this diversity with even greater related support needs. For example, lawyers need broad access to legal precedent materials, engineers benefit from high computational speed, and financial analysts need spreadsheet manipulation aids. Many solutions exist, from time sharing, to use of a general microprocessor embedded in a word processor to the microcomputer.

Much recent activity is focused on the multi-function workstation



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commitments to market \$400 million worth of Convergent workstations, adding their own nameplates and software. Not a bad track record for a start-up!

Other companies are entering the field, too: Fortune systems has a powerful workstation for under \$10,000, and even more computational ability can be found in Apollo's "Domain" system, which also features excellent communications capabilities but costs a good deal more. The Gartner Group has recently analyzed these, as well as workstations from TeleVideo, Sirius, Wicat, Grid and other relatively obscure companies some of whose growth prospects appear almost as phenomenal as was that of Apple Computer.

One point you should keep in mind. If you accept a figure of \$10,000 per fully configured workstation, how many companies can make a hard-nosed business case for the purchase of 5,000-10,000 of these to populate the professional workers' desks throughout a large organization? No computer company does yet, and they can provide these systems initially for a fraction of the \$50-\$100 million cost some other company would have to propose to the finance committee. But the trend is inexorable as salaries escalate and hardware prices contract.

MANAGEMENT: THE LAST BASTION

Managers won't type. This "truism" has discouraged many office automation vendors from seriously addressing management's needs with support systems.

Managers do not type (in most cases) because there is precious little of interest to managers on most systems designed for the office. Unfortunately, those who design systems have shown little understanding of just what managers do with



Managerial Time Distribution

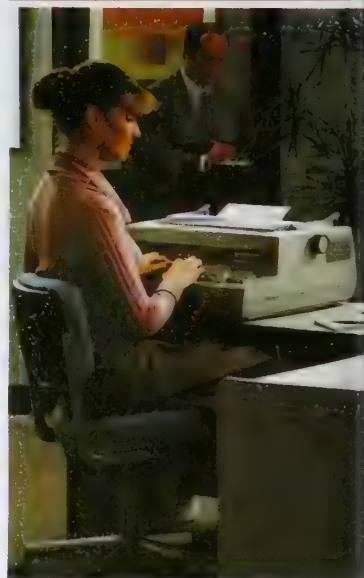
their time. In spite of studies that show management overwhelmingly involved in communications of one type or another (meetings, telephone calls and drafting correspondence) and obtaining information, systems designers still seem somewhat mystified about what a computer should do to help managers work more effectively.

Most managers have no interest in becoming programmers or skilled technicians, so management-oriented systems must require little training and, as much as possible, they should replicate familiar activities. Managers, more than other office workers, have unpredictable requirements (like the need to respond quickly to competitors, changes in government regulations or a product safety issue). Flexible, responsive systems are needed. Managers or their staffs also often need access to a wide range of data, both corporate and external, and to have that data distilled into meaningful information. Fortunately, we are starting to see the beginnings of useful management-oriented systems, often called "Decision Support".

Electronic mail and teleconferencing (the functional equivalent of the inter-office memo and face-to-face meetings, respectively) are examples of two other useful technologies. Electronic mail has been shown to be a useful, time-saving substitute for many telephone calls and most typed memos. A well thought out system can give managers quick access to their companies' electronic mail systems while traveling or at home. If you have experimented with this part of office automation yet, a good way to start with "public" electronic mail services like GTE Telenet's Telemail, Tymnet's On-Tyme II. And the major systems suppliers all have announced private systems, which of course vary in quality. Many of these systems incorporate other management functions such as calendaring.

PULLING IT ALL TOGETHER

Among the multitude of choices to be made in planning is whether to look for a single vendor that supplies virtually all the office system components.



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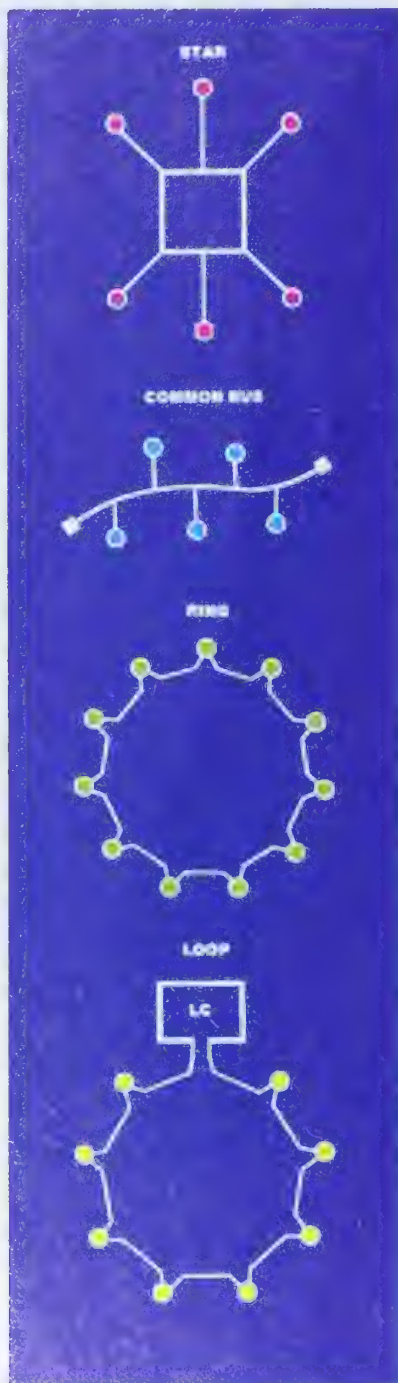
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The Integrated Office



These are some of the more common configurations for LANs. The colored circles are connections (or "nodes") to which any number of devices can be attached, such as terminals, workstations, printers, minicomputers and mainframe computers.

ponents you may need, or to pick a number of vendors, each providing a valuable, but limited part of the whole. As you might expect, there is no "right" answer to this question.

A trend that may take some of the sting out of the "buy a little from many different people" choice is the emergence of local area networks (LANs). These are relatively high-speed links (usually with coaxial or fiber-optic cable) among large groups of individual systems. Their main advantages are twofold. First is their ability to interconnect individual systems to permit shared usage of high-cost peripheral equipment, such as laser printers and disk drives.

Second, and more important, is their capability to link products from different vendors so that they can not only "talk" to each other, but understand what they are saying. This allows users to share and exchange information, such as documents and data bases. However, communications among various devices is very difficult to accomplish and requires agreement on a wide range of technical issues in both hardware and software design. But, if the integrated office is ever to come about, it is imperative that currently incompatible equipment be tied together in a meaningful way.

In the meantime, we will see various interim solutions using primarily expensive "black boxes" to act as kind of translators among specific products. Most office systems vendors have proprietary local networks, the most publicized being Xerox' Ethernet and Wang Laboratories' Wangnet. Among important independent suppliers are Corvus Systems, Ungermann-Bass, Zilog and Network Systems.

An alternative to the local network strategy is to use a new generation of PBX's as the nerve center for an office network. (PBX is short for "private branch exchange," which is

the telephone system's switch mechanism.) These advanced communications systems have the ability to manage data and voice transmission concurrently and can handle as many as 20,000 telephone lines. AT&T, Rolm, Mitel and Northern Telecom are leading PBX suppliers. Datapoint also offers an advanced PBX that is unique because its unit (called the "ISX") can also be connected to the firm's proprietary ARCnet local area network.

LOOKING AHEAD

A number of significant technological developments appear to be over the horizon. While we have become used to rapid improvement in the price/performance ratios of computer equipment, the following areas look like meaningful breakthroughs in office systems, specifically:

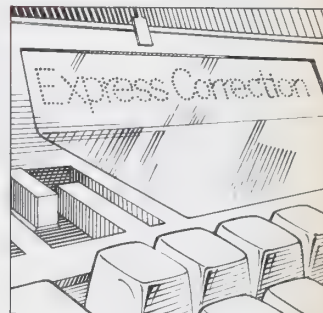
- Optical disks are now a fact of life in home entertainment and appear even more promising as vehicles for information storage in office systems. They have the potential, ultimately, to do away with file cabinets since the costs for storing documents on optical media will be below those of microfilm, and certainly will be less than manual filing and retrieval. Coupled to advanced scanning devices (that will record and index incoming mail), the "paperless office" (if not the "paperless office") may be within reach. At the count, 29 companies were at work in this area, with Japan's Toshiba and the Xerox/Thompson CSF combination, among the leaders.

- As microcomputers become more powerful, less costly and smaller, parallel development in the field of "artificial intelligence" software will allow office systems to accept precise instruction (the kind we give one another) and interpret the meaning, creating a true "natural language" environment. This same type of sy-

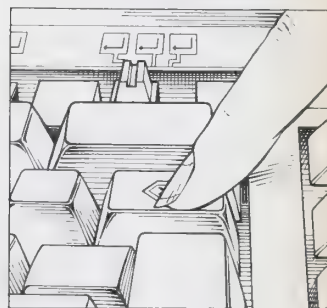
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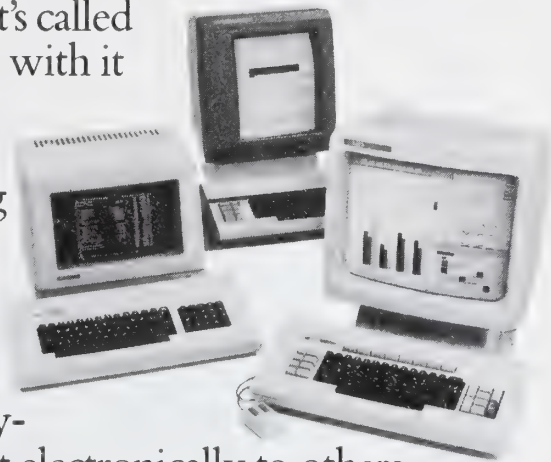
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And our concern for quality doesn't end when a new copier leaves the factory. Before a model is put on the market, it's

used and evaluated by actual customers in real offices.

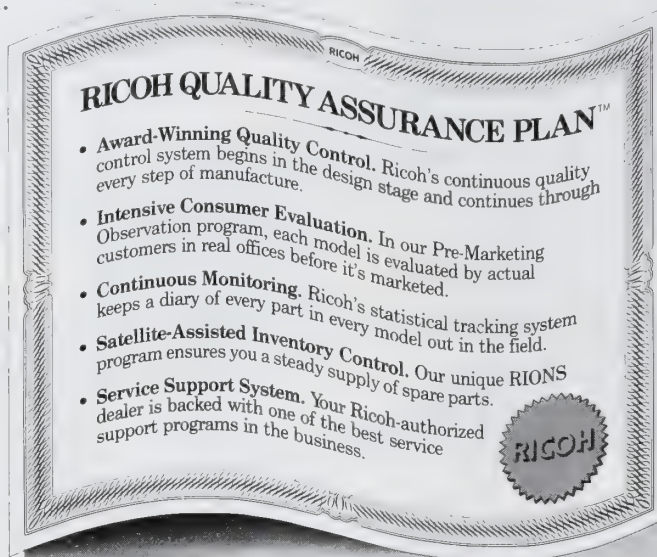
And when it finally reaches you, each copier is backed by one of the most extensive dealer service support systems in the business. So you don't have to worry about service.

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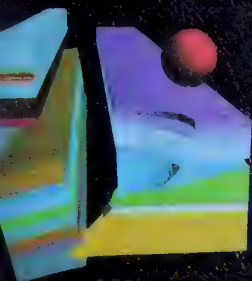
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will also contain expert guidance in doing specific tasks, following the example of early experiments "expert systems" that have been applied to medicine and geology.

One advance that could truly set the office on its ear is the anticipated arrival of speech recognition systems that can recognize normal, continuous human speech. With the elimination of keyboards, you remove a major roadblock to the acceptance of automated equipment—you also eliminate the "middle-person" in many office transactions: the dedicated keyboard operator. This may be a clue to one of the social changes that will occur over time as advanced computer systems enter our lives. Japanese manufacturers are in a leading position in this technology for practical reasons: The phonetic Japanese language is difficult to design into a keyboard. Hence, the need for system input in a spoken form. In addition, Japanese has only a small fraction of the sounds that make up the English language.

Flat panel displays are beginning to appear in a number of products. A variety of technological approaches are being tried, ranging from the electroluminescent display in GRID Systems' "Compass" system to the liquid crystal display housed in Telecommunications Corp.'s portable personal computer. Both systems weigh less than 10 pounds and are very compact. Look for a surge in truly portable systems as office workers realize the advantages of being able to perform their work outside the office.

But technology (or the office, for that matter) doesn't exist in a vacuum. As we enter into a post-industrial society (or what Alvin Toffler calls the "third wave"), we can and must expect fundamental changes in how we conduct business and live our lives.

Certainly, a major part of the office planning process needs to be focused on the organizational issues that arise as we move into the "information age." Some likely results over time are: less hierarchical, more temporary organizations (particularly as a result of improved communications); greater need for planning of office facilities because of flexible work schedules and locations; in-

creased use of electronic ordering and funds transfer mechanisms—leading to fully "electronic marketplaces;" and, more emphasis on events and trends external to the organization to keep up with and manage accelerating change.

How we perceive these changes is at least as important as the changes themselves. The R&D wizards are giving us a wealth of potent



Data General



The Integrated Office

new tools to use in our day-to-day business lives, but that doesn't change the need for skilled planning in order to use these enhanced capabilities. The companies that seriously address office systems and integration, coordinating it with their overall objectives and constraints, will be in a much better position to gain a competitive edge in the post-industrial marketplace.

For example, DEC's system, "All-In-One," allows an executive to arrange a meeting involving any number of fellow executives whose calendars are also on the system without ever uttering a sound or leaving his desk. "All-In-One" will query the executive as to the purpose of the meeting, the desired starting time, duration, whether it should include lunch, what resources (i.e. audio-visual equipment) are necessary, the earliest and latest potential starting times, and the desired attendees. The system will then check the calendars of all attendees, resources, and meeting rooms specified, determine a convenient time, notify all participants via electronic mail, and tentatively place the meeting on everyone's calendar. The entire process will take at most 2-3 seconds for a meeting involving up to 16 participants. The attendees then respond to the meeting electronically with the system either confirming or eliminating the calendar notation. The originator of the meeting can check its status at any time and cancel it if necessary. The system will notify all participants of the cancellation. An important feature of the system is privacy protection: no executive can ever view another's calendar.

Teleconferencing is a more complex situation. Video systems have received the most publicity, but carry a high price tag. A conference room equipped for video is roughly a \$100,000 investment, and because



video requires large scale communications capacity, transmission costs are quite high. Still, an extensive teleconferencing system within IBM reportedly returned its investment in less than a year.

And "public" teleconferencing facilities are becoming more common, with AT&T's recently announced "Picturephone Meeting Service" (PMS) that provides two-way teleconferencing which, by 1983 will reach 42 American cities. AT&T will provide "public" rooms in each city, with over 50 major companies already committed to building their own "private" teleconferencing rooms. A private New York to Los Angeles meeting, in full color, will cost about \$1,640 per half-hour.

Voice conferencing is much less expensive and is helped along by the universal existence of telephone lines in offices. Some users com-

plain about the quality of current voice transmission equipment and the difficulty of "directing traffic" in meetings where you only get voice signals and can't see the other participants. AT&T's new "quorum" omnidirectional microphone should solve the direction being taken to correct some of these complaints.

Computer conferencing is different from teleconferencing and offers both unique advantages and some drawbacks. It allows geographically separated groups to "meet" in a textual format. Participants gain access to the conference "proceedings," add their own comments and can seek consensus with voting mechanisms. Perhaps the large advantage of this medium is that people do not have to be gathered together at the same time to make work. People can drop into a computer conference when they wish,



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ardless of time zones or work schedules. Like electronic mail, computer conferences are accessible when you are away from the desk. The major disadvantages are that the medium is unfamiliar to most people. Moreover, like playing a chess match through the mail, you lose the insight you can gain from facial expressions, body language or voice intonation—and computer conferencing's textual basis requires typing, at least for the present.

VENDOR STRATEGIES

The office automation market, with one of the highest growth potentials of any segment in the information industry, has attracted literally hundreds of vendors with specialties ranging from data processing to communications to more familiar office equipment such as copiers, typewriters and word processors. Although the market will be large enough to accommodate many players, including those specializing in a limited number of products, the lion's share of the office will go to those vendors who can provide systems solutions that are comprehensive and well-integrated.

Following is a rundown of the vendors likely to lead the charge into the office and a quick overview of some of the second tier suppliers who have the potential to succeed, albeit at lesser levels.

The three vendors that currently dominate the office - IBM, Wang and Xerox - will be joined by DEC to constitute the market leaders for the mid-1980s. There remains the possibility that one of these (except IBM) may falter and that some other company will join their ranks.

IBM CORP.

It is no surprise that IBM was singled out by almost all vendors interviewed as their number 1 competitor in the



office. When "Big Blue" targets a market, it is usually only a question of time before it assumes a leadership role, and the office is certainly no exception. For example, although word processing comprises only about 2% of IBM revenues, it is enough to put it in first place, with most sales coming from a single product, the Displaywriter.

Moreover, IBM spent approximately \$1.4 billion on R&D last year, nearly five times that of the next highest data processing company. Small wonder it is probably the only company that has working laboratory hardware and software capable of providing all major office technologies in an integrated way. Thus, if any competitor makes significant inroads in the office with integrated offerings, IBM could react very quickly with at least a similarly capable

product or product package.

Still, IBM has its work cut out itself, if only to find and implement solutions for a huge base of equipment that is in many cases incompatible, or at least very difficult to integrate. No doubt the solutions come and we can look forward to a wealth of product announcements including a local area network that will later be integrated with a PBX. In addition, with ever-lower price points being established for important office equipment such as word processors and personal computers, IBM has apparently changed its prior philosophy of not selling to value-added resellers in order to achieve even greater economies of scale. In 1980, IBM should ship close to 50,000 Displaywriters, compared with 20,000 in 1981. In other words, look below!

Royal Introduces the Non-Stop Copier.

The high volume copying system you can land for a lot less than a Xerox.



If your company requires a large volume of copies, you can't afford to waste a lot of time, labor or money.

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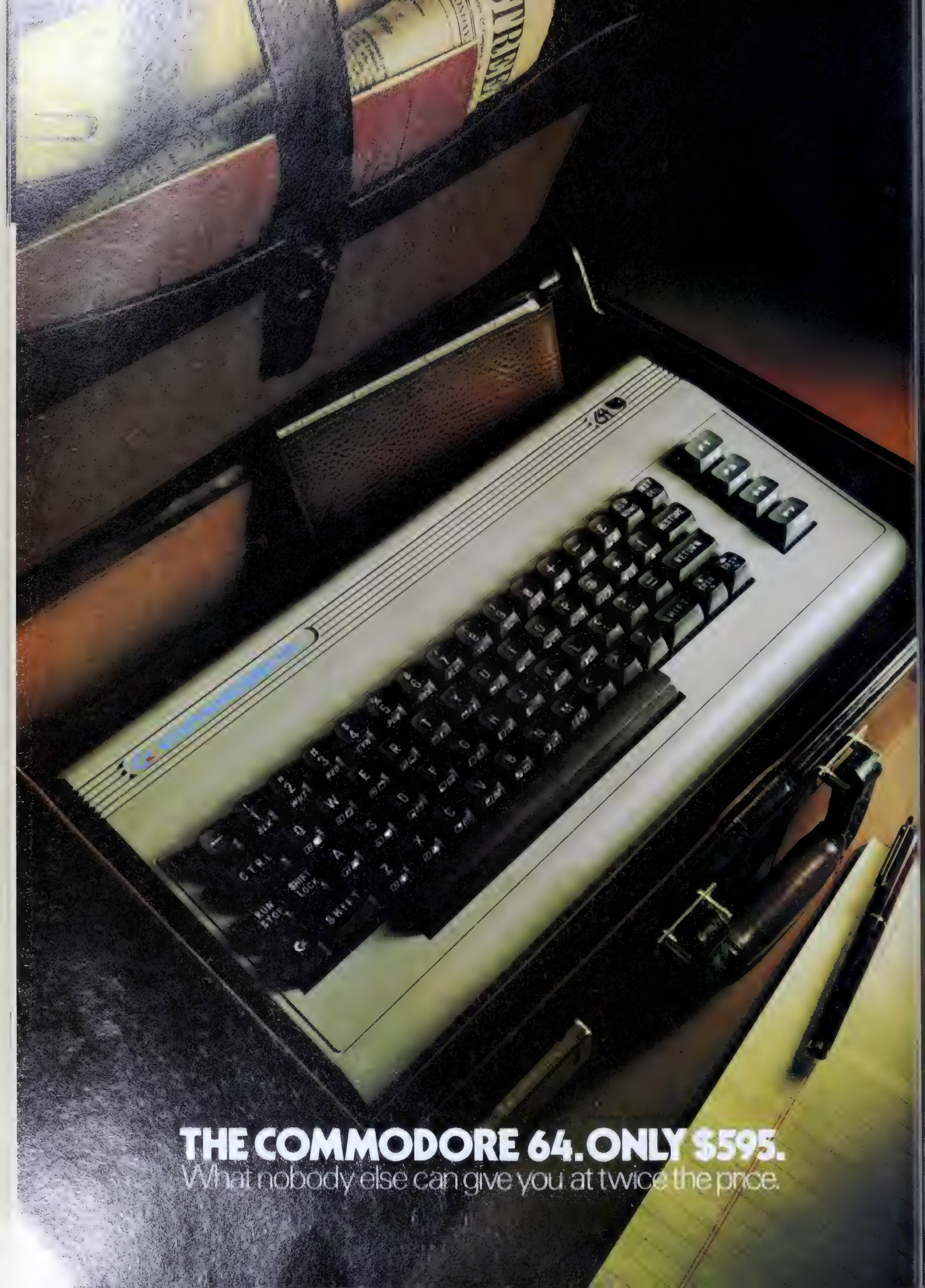
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The Integrated Office

WANG LABORATORIES

Wang broke into the billion-dollar club for the first time in 1981 and is a bona fide giant in the office market, ranking second to IBM. It has been the industry pacesetter since 1976 and currently boasts the largest installed office systems base. This head start in identifying and meeting user needs is an important asset of the company. Wang's systems approach focuses on integrating what it calls the "six technologies" into its product line (data, audio, text and image processing, networking and human factors). It also enjoys a solid reputation for customer satisfaction and product compatibility.

Last year, Wang announced Wangnet, a broadband LAN that one top executive calls "the key to the future . . . which will provide one interface for everything needed in the office; data bases, communications networks and so on." Possibly because of its large installed base, Wang has not been nearly as aggressive as Xerox in opening up Wangnet's specifications to the world. Still, the company reports it does not intend to jealously guard Wangnet from other vendors.

Even though it faces much stronger competition than it did in the past, Wang clearly has some strong pluses to work with. Though its top management of founder An Wang, John Cunningham and heir apparent Fred Wang is highly regarded for their foresight and marketing acumen, some people question whether the company's middle management tier may be too thin for a billion dollar enterprise that continues to show high growth.

DIGITAL EQUIPMENT CORP.

DEC, number 2 in data processing, is making a strong bid to join the



Wang's Six Technologies For Office Integration

other "big three" in the office by offering what it considers the most comprehensive and integrated approach to office information systems. It has worked hard to round out its product line, particularly in the low end, with an impressive line of personal computers that are for the most part fully integrated with its VAX minicomputers. The 325 and 350 personal computers offer superior graphics and communications capabilities and both can run DEC's new, high performance "All-In-One" software, which can also be used via the popular VT-100 terminal. The DECMATE II word processor has duplicated its predecessor's word processing functions, added data processing and strong communications, and shattered previous price points with a \$6,000+ price tag. It compares favorably to IBM's Displaywriter and with reportedly ambitious production plans, will increase the pressure on standalone word processing vendors.

DEC (along with Intel) collaborated with Xerox on Ethernet and its own LAN, called DECnet. Its products are compatible with both them. Also, DECnet is compatible via "gateways" with IBM's Systems Network Architecture, thereby enabling large enterprises using mainframes to expand department and personal computing using DEC systems. The challenge to DEC is to ensure its large minicomputer base adopts its product line and then (at the same time), take on the installed bases of Wang and IBM.

XEROX CORP.

In recent years, Xerox has attempted to diversify from its copier base into various sectors of the information industry. It abandoned efforts to enter the mainframe market in 1975 and has since concentrated on becoming a leading office automation vendor. Xerox offers a wide product line ranging from typewriters, word

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The Integrated Office

cessors, personal computers, management workstations and laser printers to optical character recognition and, most notably, local area networks, with Ethernet.

Xerox' office systems strategy is largely tied to Ethernet. From the start, Xerox has tried to make Ethernet the industry standard for local area networks. By offering other vendors the specifications for accessing Ethernet at the bargain price of \$1,000, Xerox attempted to preempt the field (especially before IBM introduced a local network) and create a situation where Xerox would be viewed as *the* office integration company, and thus hold a preferred position for its entire office equipment line. As of last July, 220 Ethernets were reported installed, primarily in the Forbes 500. Xerox recently reorganized its office product division (OPD), creating a new office systems division (OSD) that will concentrate on Ethernet and Ethernet-compatible products, leaving the rest of OPD with the responsibility for standalone products.

Xerox' challenge is to convince users it is much more than a copier company by delivering competitive products across the board. If it falters in this regard, Xerox may find itself back among the pack, chasing the leaders.

AT&T

Except for telephones and PBX's, AT&T presently has few office offerings. But that could change very quickly. American Bell, AT&T's newly named unregulated subsidiary, has the capability to bring to the market in a matter of months such products as advanced local area networks, videotex systems, sophisticated computerized desktop phone directories and new voice/mail systems. American Bell's first announcement, Advanced Information Systems/Net 1, will instantly make it a leader in wide-

area communications, along with Telenet and Tymnet. AT&T also is a leader in PBXs, but over recent years it has lost a growing part of its customer base to interconnect companies like ROLM, Mitel and Northern Telecom, whose digital and computer-based PBXs offer more attractive features than the Dimension PBX. However, AT&T will soon bring out its own digital version and should regain market share over time. Though AT&T will probably not move too aggressively until divestiture issues are finally settled, it certainly has the resources to play a *big* role in the office of the future.

HEWLETT-PACKARD

Hewlett-Packard, with a strong reputation for supplying systems for engineering and other users with a technical orientation, is also targeting the office with its recently introduced product line called "The Interactive Office." The announcement included 20 new products, many of them upgrades of existing lines. A spokesperson for the company said that its products were designed to meet the needs of four specific areas; document management, decision support, personal support and organizational communications. The company is particularly strong in graphics software. One product, HPDRAW, enables non-technical

people to prepare top quality foils full color incorporating graphics and schematic drawings as well as text. Though it may be hard to imagine, Hewlett-Packard as an office systems leader, the firm has all the communications and word processing hardware and software credentials needed to enter the office market.

OTHER PLAYERS

Among other vendors vying for the office market, several have their roots in distributed data processing (ddp). One of the pioneers in ddp, Datapoint, introduced its local network, ARCnet, in 1977 which has since been installed in far more schools than any local network. The company has reduced ARC's interface equipment to semiconductor chips and has made them readily available to other vendors. Despite recent problems, Datapoint's loyal customer base is an important asset of the company.

Probably more than any other vendor, Prime Computer practices what it preaches by developing internal integrated systems using Prime equipment. It relies on PRIMENET (a packet switched long distance network), RINGNET (a local network) and some 77 Prime minicomputers to support the needs of over 4,500 Prime employees.



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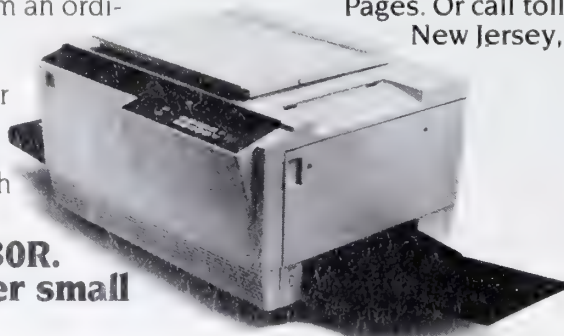
It makes copies up to 11 x 17". And it has Minolta's exclusive micro-toning system for crisp, clear copies. From edge to edge. It even makes reduced copies.

If you don't need copy reduction, you can get the EP 530R without the R. The Minolta EP 530.

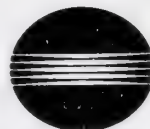
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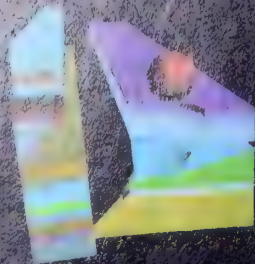
- touch-sensitive screen
- personal computer option
- voice store and forward
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- display segmentation



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MOTOROLA INC.
Information Systems Group



The Integrated Office

cording to the company. One network links Prime's home offices in Massachusetts with field offices in the U.S., Canada, Great Britain and with manufacturing plants in Puerto Rico and Ireland. Another network links product development efforts between the home offices and its research and development facility in Bedford, England. Now that Prime has demonstrated its equipment can do the job, it has to convince users it can meet their needs as well.

Four-Phase Systems recently announced a new family of computers targeted at the office, the Series 5000, that will be available towards the end of this year. It offers the FAS-TRAK line of 5 intelligent terminals (the most notable feature being a touch-sensitive screen that eliminates the need to type), a personal computer, and NET IV, a broadband local network. Its software offerings include COMS/IV (Corporate Office Management System), designed for managers. Given the full support of its new parent, Motorola, Four-Phase may well make an impact on the market.

NBI may very well prove to be one of the exceptions to the notion that it is necessary to be a total systems supplier in order to succeed in the office. Widely recognized for having one of the best management teams in the industry, headed by President Tom Kavanagh, NBI approaches the office from a word processing bias, which it believes is the best way to bring more functional tools to more office workers. It offers impressive communications capabilities and stresses software compatibility throughout its line, from the entry level Docuwriter all the way to its system 3000S. Provided NBI can continue to offer superior text management software, its future looks bright, particularly in medium-sized firms.

Exxon Office Systems deserves



Herman Miller

note not because of where it is now, but where it may eventually be if it can effectively marshal the tremendous resources of its parent. After a less than spectacular effort to mold a total office strategy out of an amalgam of acquisitions, it has consolidated its remaining holdings and is concentrating on developing the marketing and support structures that it will need as it expands into other areas of the office. Exxon Office Systems is now focusing its efforts on penetrating large numbers of offices with the Series 500 word processor that is aimed at improving productivity at the secretarial level.

Honeywell is one of several mainframe companies also targeting the office. Honeywell Information Systems, with responsibility for developing, marketing and supporting its office automation products, can rely on the company's extensive experience derived from years of installing environmental control systems, both within buildings and among many sites. This experience extends to necessary communications networking all the way to the more mundane, but no less important tasks of installing the wiring and other

equipment necessary to provide integrated systems. Moreover, the company is vertically integrated and plans not only to introduce its own personal computer, but to eventually offer a PBX which it envisions as a controlling hub for information as well as environmental management. The company believes the fully integrated office will arrive in the 1990 timeframe and is positioning its strategy with that in mind. In the meantime, it offers a range of office automation systems to meet the varying needs of its customer set.

JAPAN, INC.

Several Japanese vendors already have made their marks on the U.S. office automation market, but the main contributions to date have tended to focus on office equipment, notably copiers and facsimile, and not on integrated systems.

For example, Ricoh now holds second place (to Xerox) in the U.S. copier market. Though its products have been marketed under the Samsung name, it has been lining up its own dealers. Ricoh's subsidiary Rapico offers a line of facsimile devices and

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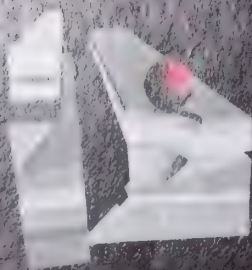
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Sharp, the largest manufacturer of calculators in the world, has also been aggressively pursuing several areas of the office, such as copiers (#3 in the U.S.), personal computers and word processors. Its well-established U.S. dealer distribution network is one of its key assets.

Canon is another familiar name that has branched out from calculators into copiers (#2 in Japan and boasting the world's fastest plain paper copier) and more recently, into facsimile, word processors, personal computers and now, typewriters. Canon is unique among Japanese copier producers in that it did not take the private-label distribution route in the U.S. as a starting point; it has sold its line under the Canon name from day one and accordingly, has reaped the name-recognition benefits that flowed from that decision.

Other Japanese office equipment companies to watch are: Matsushita (copiers sold by Saxon and facsimile by Panafax); Minolta (copiers sold by Pitney Bowes and IBM as well as independent dealers); and Oki Electric (facsimile sold by 3M and personal computers and computer peripheral equipment, mostly printers, sold by Okidata).

Although few of these companies will probably offer systems solutions, the emergence of LANs and PBXs will eventually allow their products to be integrated into the systems of other vendors and greatly enhance their attractiveness into large user groups. Several other Japanese firms, however, are strong candidates to compete in the total systems market in the near term, notably Nippon Electric (NEC), Fujitsu, Hitachi and Toshiba.

In Japan, NEC is #1 in telecommunications and semiconductors, #2 in facsimile, #3 in computers (and

moving up fast on the leaders) and the dominant leader in personal computers, with a 50% market share. In the U.S., NEC America has the highest profile of any Japanese supplier, with products ranging from personal computers and facsimile to PBXs.

Toshiba America also has made a name for itself in the U.S., and like NEC, is active in all areas critical to the integrated office. It will most likely pursue the low-end of the market and then evolve into a high-end systems supplier.

Fujitsu and Hitachi, Japan's two leading computer companies, have

taken a wait-and-see posture in respect to the U.S. office market. As highly vertically integrated companies, they both certainly have resources to play important roles, especially as the office system market matures. For the time being, they are concentrating on establishing distribution channels here, Fujitsu with TRW-Fujitsu, among others, and Hitachi with National Advanced Systems.

But no matter which company ultimately win the battle for the office, there is no doubt it will be an exciting arena to watch for the coming year.



Herman Miller, Inc.

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John Portman freely admits he's building for the man in the street. Maybe that's why he's making so much money.

Disneylands for adults

By Jane Carmichael

WITH HIS PAISLEY BOW TIE and elegant sweep of gray hair, architect and developer John Portman looks more like a prosperous portrait painter than a successful architect and developer. And indeed he is something of an artist. His spacious

offices in Atlanta's Peachtree Center complex are lined with his own paintings—abstract squiggles in the Jackson Pollock mode. Portman even talks in the cosmic abstractions of an artist: "What we're trying to do is to build something that has tremendous substance, that strikes at the very heart of architecture and its relation-

ship to the human being."

But underneath that artistic facade beats the heart of a shrewd businessman. Portman not only designed the \$700 million Peachtree Center; as a real estate developer, he also owns much of the complex, which includes two hotels, a restaurant, a decorative arts center, a merchandise mart, an apparel mart and seven office buildings (all fully rented, despite Atlanta's 15% vacancy rate). He has equity in many of his other projects as well: notably the Los Angeles Bonaventure hotel and Embarcadero Center in San Francisco. At the moment he has \$2.2 billion worth of projects under development all over the world, from a hotel on New York's Times Square to a mammoth condominium complex in Hong Kong.

Portman, 57, sees no difficulty in making business sense of his artistic vision. "Architecture is a social art, not a private art," he says. "A building sits out on the corner. So the most important thing is creating an environment that all of the people respond to, not just the highly educated es-



Architect-developer John Portman on the construction site of the proposed hotel on Manhattan's Times Square
"I'm not interested in building little buildings here and there."

there but the man on the street." A building that is popular with the public also stands a better chance of making money, especially if it is a hotel or a large multi-use complex of the sort Portman favors. So Portman uses huge atriums filled with plants, tiny lights, waterfalls and fountains, even live birds in his buildings.

Because Portman has a direct interest in controlling the cost of his projects, he is careful to look for economies. That's also why, when he built the Hyatt Regency in Atlanta, he came up with a novel ventilation system that required minimum ductwork and was much cheaper than conventional air-conditioning systems. It consists of a single pump that circulates air throughout the hotel's 23-story atrium, and so to all floors. Small units above the doors of individual rooms make exact indoor temperature adjustments.

Portman decided to become an architect when he took a mechanical drawing course in junior high school and discovered, to his surprise, that he liked it. The next year he talked his high school principal into letting him take all the architecture courses at the vocational high school next door. He is still driven; he works six-day weeks and paints most of his squiggly canvases between midnight and 3 a.m. "It's totally relaxing," he says.

Portman has always insisted that he became a developer in order to "control my own destiny." He went into private practice in Atlanta the instant he passed his licensing exam, just three years after he got his B.S. in architecture from Georgia Tech. It was tougher than he had imagined. One of his first designs was for a medical center in Atlanta. He won an architectural award for it but lost \$7,500, because it never was built. That very nearly wiped him out. Soon after, he decided to go into development. "I didn't have an easy time getting work as an architect," he says.

He launched his career as a developer by converting an old garage in downtown Atlanta into a merchandise mart. It was a shrewd play: All he had to do was put in air-conditioning and partitions, and the exhibitors would take care of the interior decoration themselves. Portman traded on the mart's success to get financing for a bigger, new one nearby, the beginning of what became Peachtree Center. The new mart cost only \$8 a square foot, or \$8 million, with most of the equity supplied by an established Atlanta developer named Ben Massel. Two years later, Portman and two partners, including Dallas devel-

Profiles

oper Trammel Crow, exercised an option to buy Massel out for only \$250,000 down.

What made Portman famous, though, was the Hyatt he built across the street from the mart, with its revolutionary atrium rising the full height of the building. Crow claims Portman got the idea for the Hyatt's atrium from Crow's apparel mart in Dallas. Others cite the 19th-century Brown Palace Hotel in Denver. Portman's version is that it goes back to antiquity.

Wherever the atrium idea came from, the Hyatt was an overnight success. It was 90% full within three months of its 1967 opening. Suburbanites lined up around the block just to watch the glass elevators in the

"We got so excited about architecture and enamored of John Portman's view of atriums that we forgot we were freezing to death."

lobby. "People enjoy seeing people," says Portman, who often eats lunch in Peachtree Center's sidewalk cafe to people-watch.

But success didn't come easily. Portman and Crow originally went 40%/60% with an investment company on the deal, but when the hotel was only four stories up, the investment company backed out. Portman and Crow offered the 60% interest to just about everybody in the hotel business—Marriott, Westin, Loews, Hilton, Sheraton. Some were dismayed by all that "wasted" space in the atrium. The Loews deal collapsed at the last minute because Loews insisted on ice-water taps in all the rooms. Finally, the Pritzker family, the Chicago clan that controls Hyatt Corp., agreed to take on the project.

The hotel made Hyatt's name as well as Portman's, though Portman is quick to point out that he designed only two more himself. He is particularly careful to stress that he had nothing to do with the ill-fated Kansas City Hyatt.

Since those successes Portman has preferred to build whole complexes—he calls them "environments"—instead of single buildings. "I'm not interested in building little buildings here and there," he says. "The Times Square hotel is the sort of thing that excites me."

It was former New York City May-

or John Lindsay who first asked Portman to be the architect for the Times Square hotel in the early Seventies; now, two mayors later, it is finally getting under way. First, the problem was financing. No one wanted to underwrite a new hotel in the middle of New York's fiscal crisis. So Portman pulled out in 1973. He returned in 1979 at the urging of Mayor Koch and with the help of a \$21.5 million grant from the Urban Development Corp. Then the problems became political: whether or not there should be a public mall in front of the hotel (there will probably be no mall). Actors' Equity also mounted a campaign to save two legitimate theaters on the site.

Portman went to court for months, piling up more millions in legal fees. "Anger isn't a strong enough word to describe what I felt," says Portman. Meanwhile, the estimated cost of the hotel had more than doubled, to \$330 million. Still, Portman claims he would do it all again. "These things you have to suffer through," he says.

But Portman cleverly masks his iron will with a low-key charm to get what he wants. Says David Rockefeller, who agreed to invest personally in Embarcadero Center in 1967 when Portman was still a virtual unknown: "He's an excellent salesman because he really believes in what he's doing and he expresses it vividly and convincingly." Wayne Doran of Ford Motor Land Development Co. remembers standing with Henry Ford II and Portman on the bare steel girders of the then-unfinished Embarcadero Center when Ford was looking for an architect for Detroit's Renaissance Center. Says Doran, "We got so excited about architecture and enamored of John Portman's view of atriums and all that, we forgot that we were freezing to death."

Off the job, Portman lives in an imposing two-story, glass home he designed himself supported by 24 huge columns, each 8 feet in diameter, built into a hillside in the Atlanta suburbs. He is building another house on Sea Island off the coast of Georgia. He talks of turning the Atlanta house into an art museum when the youngest of his six children goes out on his own.

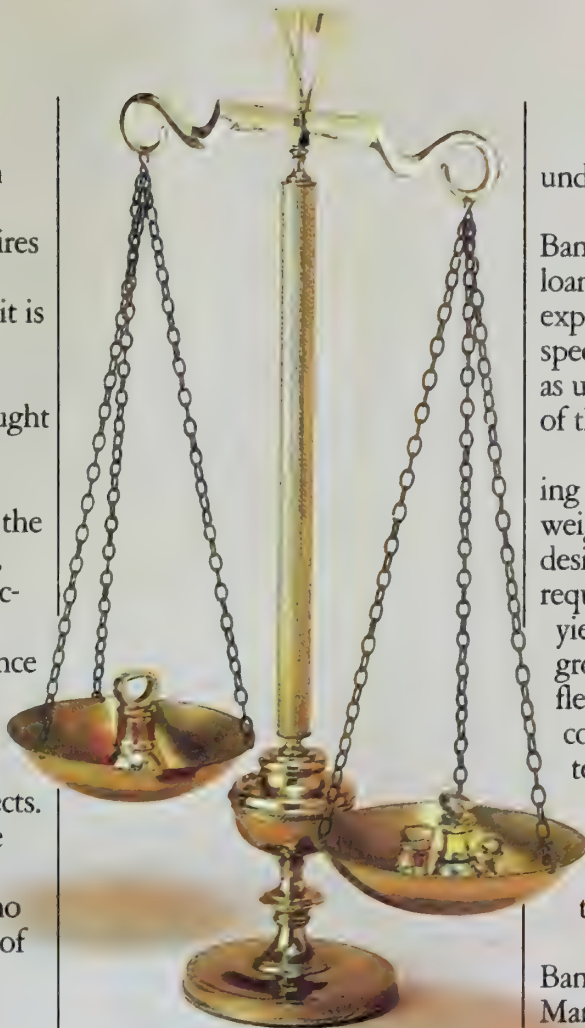
In recent years Portman has begun to gain respect from his peers. In 1978 the AIA gave him an award for innovation in hotel design. Still, few people would mention him in the same breath with Philip Johnson or I.M. Pei. How does he feel about that? He thinks a minute. "We've been accused of building Disneyland for adults," he says with a smile. "And you know? I don't really object to that." ■

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Taxing Matters

Why is Congress picking on bankers and retirees with its new withholding rule? Because you have to start somewhere.

Police brutality?

By Robert Teitelman

BANKERS AND RETIREES screamed bloody murder when Congress decided to withhold taxes on interest, dividends and pension income in the new tax bill. "They have no idea what this is going to cost the banking industry," says David Hastings, of Richmond, Va.'s First & Merchants National Bank, who testified against it. Adds Coopers & Lybrand in its analysis of the bill, "This provision is likely to be a paperwork nightmare."

Nobody ever said taxing the underground economy was going to be easy. Certainly, in trying to pick up an estimated \$20 billion in lost tax revenues on interest and dividends the IRS is going to cause a lot of inconvenience and a fair amount of forced investment from banks. Justifiably?

Here's what the bill does:

All interest and dividend payments will have 10% sliced off the top beginning July 1, 1983. Periodic pension payments will be withheld at the same rate as wages beginning the first of the year. For the retiree who isn't watching closely this may come as a nasty surprise. True, there are exceptions for low-income taxpayers and for those over 65 with low tax liabilities. Pensioners will also be able to avoid withholding on pension payments entirely, simply by telling the IRS or the pension plan that they choose to "elect out."

In theory, instead of getting its money at tax time, the IRS is getting it little by little. The tax rate hasn't changed. So why the fury?

Well, from the point of view of the banks and financial institutions, the government's assault on tax avoiders

is going to cost a lot of money. Naturally, the banks are just now figuring out how much. But it's already clear that it will hurt smaller banks more than larger ones, which have greater economies of scale. For example, First & Merchants, with earnings of just over \$20 million, has estimated that setting up the records system will total \$2.5 million in the first year.

The IRS has tried to soften the blow by giving banks a so-called 30-day float—30 days during which the



banks can hold the withholding taxes before handing them over to the IRS. For the largest banks, this privilege will last a year; for medium-size ones, two; for the smallest, three. The Treasury thinks this will compensate for the banks' startup expenses, but bankers argue that the new paperwork will still cost them far more than that—possibly even more than the government can collect in taxes.

Even if that's true—and estimates on these sorts of expenses are tricky, at best—this is primarily a one-time expense for the banks, as they set up

their new accounting systems. But the government will continue to collect revenues from former tax cheaters for years to come.

Retirees, who face withholding on pensions, must rethink their tax situation and deal with more paperwork. But, says Albert Ellentuck of Laventhol & Horwath, "In the long run, pensioners needn't lose use of their money. They will have to plan a little more."

It's unfortunate that banks and retirees are going to be inconvenienced just to help the government catch up with a few hundred thousand bad apples. But you can't complain about tax avoiders and then, in the same breath, cry "police brutality" when the IRS goes chasing after them.

Taxing Pac-Man

If it makes sense to tax adults on their liquor and cigarettes, why not go after some teenage vices as well?

That's what the city legislators of Washington, D.C. are asking themselves, anyway. The D.C. Council is considering a proposal to tax video games and pinball machines. Council member Jerry Moore Jr. thinks such a levy might raise as much as \$8 million a year eventually.

The council has not voted on the proposal yet, but Moore fiercely promises to reintroduce the measure if it doesn't make it this time. Says he: "If the owner raises the price to 50 cents because of the tax, the kid can just play fewer games."—Aaron Bernstein

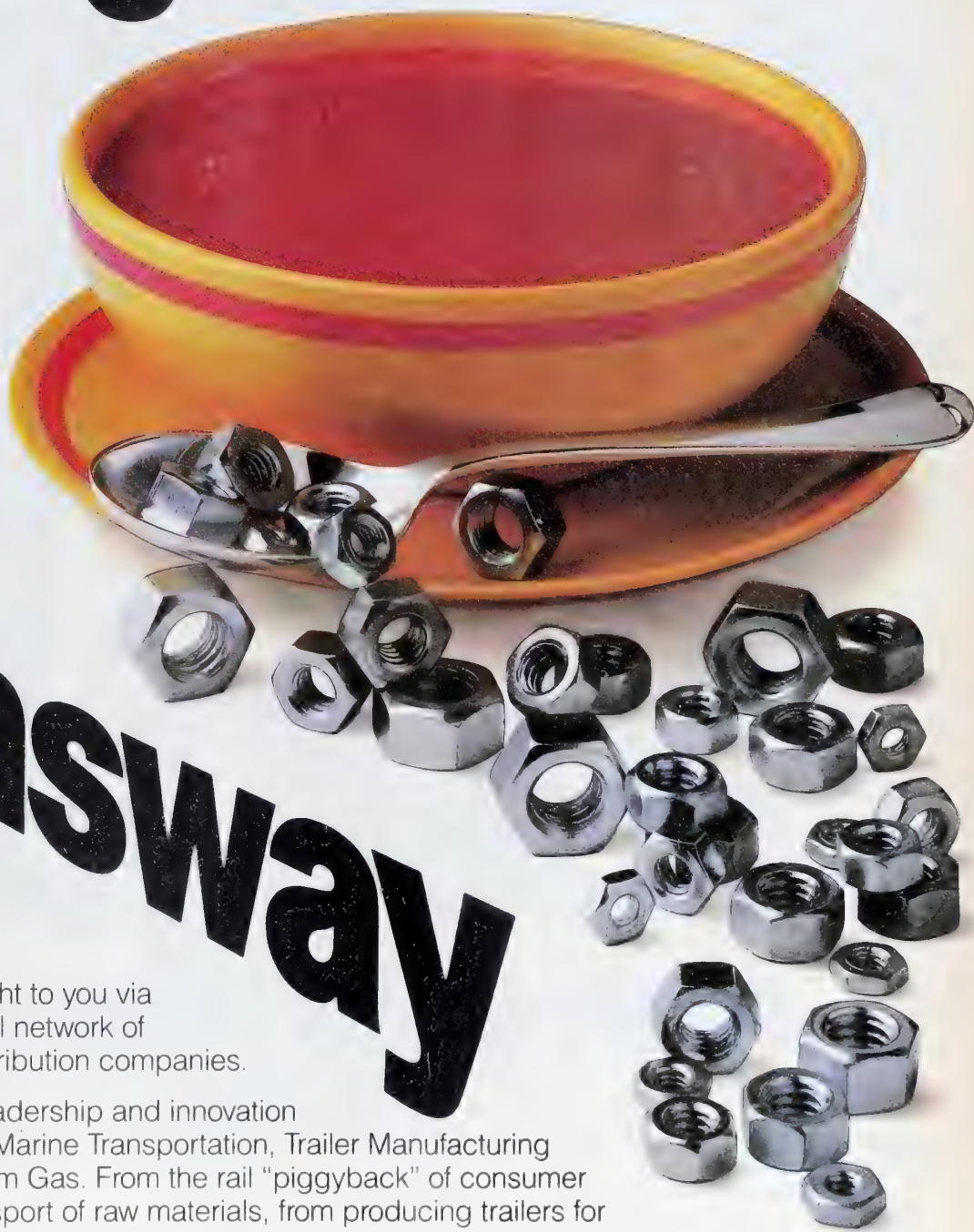
Not so elementary

Sherlock Holmes, you will recall, had a vast knowledge of dirt, tobaccos and accents that he used to solve crimes.

The IRS recently tried to take a page out of Sherlock Holmes' book in attempting to prove that a contract was actually written after the date a taxpayer said it was. Psychiatrist Bernard Pacella of New York City claimed he had signed an employment contract back in 1972. But the IRS claimed he couldn't have signed the contract that year. After all, an ink analyst had determined that the type of ink used for the signature wasn't on the market in 1972.

But just as the Internal Revenue Service was ready to start outfitting its staff with briar pipes and magnifying glasses, the Tax Court decided that ink analysis wasn't a science and so wasn't admissible as evidence. Things were a bit easier for Arthur Conan Doyle.—Aaron Bernstein

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General Motors was famous for anticipating change in the automobile business. Now it seems only to react to change. What's gone wrong with Alfred Sloan's mighty system?

Are GM's troubles deeper than they look?

By Thomas O'Donnell
and Jill Andresky

THERE HAVE BEEN and always will be many opportunities to fail in the automobile industry. The circumstances of the ever-changing market and ever-changing product are capable of breaking any business organization if that organization is unprepared for change—indeed, in my opinion, if it has not provided procedures for anticipating change.

—Alfred P. Sloan Jr.

My Years With General Motors

Alfred P. Sloan Jr., whose icy intelligence shaped and presided over GM's awesome growth for more than three decades, died in 1966, at 90, having every reason to feel that the management structure he had imposed on GM could handle anything that came along. The catch-phrases describing that structure are now part of every well-bred executive's lexicon, serving as little primers on how to keep a huge organization lithe, aggressive and profitable.

Sloan's goal of "decentralized planning with centralized financial controls" nicely conveys how a company that counts its money in megabillions decides where and how to take risks. A car "for every purse and purpose," as Sloan put it, surely describes GM's product line, which will range, as the 1983 model year kicks off this month, from a stripped Chevette Scooter at \$5,000 to a loaded Cadillac Seville at \$21,500. And Sloan defined the overriding purpose of all this in a way that seemed to guarantee decision-making uncorrupted by mere tradition or sentiment. "The primary objective of the corporation," he declared, "was to make money, not just motor cars."

For more than half a century it

worked beautifully. General Motors became a wonder of the industrial world, a leader not only in finance and efficient production but in masterful marketing as well. Sloan's machine was a wondrous thing in a world growing steadily more affluent, where fuel was cheap and the automobile was liberating hundreds of millions of individuals from the old restrictions



**Alfred P. Sloan Jr.
Chairman, 1937-56**

Was running GM by 1923, seven years after it bought his New Jersey-based roller bearing business. Devised the legendary management "system" and cared for little else but work. Didn't smoke, drink or sail his yacht. Thought sports a waste of time. Favored decisions by committee but wasn't keen on memos. Colleagues dubbed him "Silent Sloan."

of time and space. Indeed, the automobile shaped the modern world and GM shaped the automobile.

But Sloan's successors followed the old blueprint too faithfully. They forgot one of its key ingredients: the "procedures for anticipating change." Anticipating, not reacting to. On more than one occasion since the energy crisis became actual in the early 1970s, General Motors has stumbled, reacting to events rather than anticipating them.

Metaphorically, if not in reality, GM Chairman Roger B. Smith must nightly be contemplating the bust of Alfred Sloan. The question he should be asking: In following the letter of your teachings, Master, have we forgotten the spirit?

In a business where it can take two years to effect a minor styling change and twice as long to tinker seriously with an engine design, it is Smith's lot to have taken over in January 1981, just as GM skidded through the worst performance the company had shown in 60 years. In 1980 the company racked up its first loss, \$763 million on sales of \$58 billion, since 1921. The next year it reported a modest profit of \$333 million on sales of \$63 billion, a mere 0.5% profit margin. Sales in 1982 thus far are running 6% behind last year. Such earnings as there may be after the first nine months will derive mainly from the GMAC finance subsidiary, foreign exchange translations, income tax credits and swapping stock for outstanding long-term debt—not from auto operations.

More ominous is the marked decline in GM's financial strength. In the old days, even under duress as in the recession year 1974, GM had nearly \$2 in current assets for every \$1 in current liabilities. In mid-1982 the

working capital ratio was little more than a wash—current assets of \$14.9 billion only slightly exceeding current liabilities of \$13.5 billion. Long-term debt, which as recently as 1979 stood at just 4.2% of total capital, more than doubled in 1980 to 9.9% and very nearly doubled again in 1981 to 18.6%. With GM midway through a five-year, \$40 billion capital spending program announced late in the reign of Thomas A. Murphy, Roger Smith's predecessor as chairman, GM's debt should be well in excess of \$4 billion, some 20% of total capital, as 1983 begins. "For the first time since 1919," says Arvid Jouppe, the well-known auto analyst and consultant, "the level of [GM's] debt has become imprudent."

But finance is almost the least of it. GM's two newest car lines, the small J-car and the midsize A-car, each produced at a cost of billions, have met with soggy reception in the market. GM won't reveal the gory details, but this much is certain: Not once but twice, GM has missed the market. Not since the X-car was introduced in 1979 (Chevy Citation, Pontiac Phoenix, Olds Omega and Buick Skylark) has GM had a major success.

Chairman Smith, nevertheless, goes around these days giving a splendid impersonation of a man without a care in the world. "We're still a growth industry," he was saying last month in his spacious, tastefully spare office on the 14th floor of the GM Building in Detroit. "I'm in a four-car family, but on Saturday morning if I don't get to the garage before my wife and three kids, I have to walk. I don't have any trouble seeing sales of 12 million to 15 million cars a year in the future."

It would be foolish to expect Smith to go about hanging crepe. It's his job to spread optimism. What is unsettling, however, is the uneasy feeling that Smith really believes there have been few fundamental changes in the world economy and in world transportation—changes that can't be met in traditional ways.

Negotiations with the United Auto Workers on give-backs to cut labor costs have only added to his problems with labor. On the very day the UAW and GM announced some \$2.5 billion in long-term wage concessions, a new bonus plan for GM executives was proposed for shareholder approval. That unfortunate timing set off an uproar. "Labor," analyst Arthur Davis of Prescott, Ball & Turben contends, "is the real powder keg at GM."

Just over three years ago, former GM President Elliott (Pete) Estes an-



Albert Bradley
1956-58

A virtual glad-hander relative to Sloan. Hired as company's first statistician, rose through the ranks. Used academic training (Ph.D., economics) to devise forerunner of computer modeling; found that GM sales, income were related to national economy. Critics say number crunching missed trend to more female car buyers.



Frederic G. Donner
1958-67

A "coldly capable accountant"; rose through GM's financial side and always carried a big black volume of statistics. Precise. Reticent. Praised for perfecting Sloan's system, but won few friends. Originated management by intimidation. Summed up strategy in 1963: "We're just silly enough to think we'll keep on doing the same thing."

nounced ambitious plans to become number one overseas. Thus far, the drive has stalled. Why? One big reason is that the world market itself emits ambiguous signals. On the one hand, GM has reason to envy the fortunes of Ford Motor Co., which has been doing far better abroad than at home. Indeed, over the past three tough years, when Ford was losing \$3.4 billion on U.S. operations, its overseas branches were showing a cumulative \$2 billion profit. On the other hand, GM will have its hands full finding room wherever it may go. Within the Japanese home islands, automaking capacity has risen to 13 million units per year—despite a domestic market capable of absorbing no more than 5 million or so. Substantial overcapacity exists almost everywhere else, even in countries like Brazil, Argentina and Mexico that came late to the game, to say nothing of the industry in Europe.

Alfred Sloan looked upon GM efforts abroad as an "inevitable extension of our progress in this country." For all that, GM today has but 29% of its assets committed abroad. Last year foreign operations accounted for just 16% of its sales and racked up a big operating loss. Despite this, GM vehicles account for a mere 8% of all cars

and trucks sold outside the U.S. The company emphasizes, however, that its overseas commitment remains strong.

Meanwhile, at home, Japanese nameplates alone account for about 25% of new car sales in the U.S. so far this year. Making every unit count—and, of course, taking a leaf from Sloan's book—the Japanese have been loading more of their exports with a range of options. Nissan's deluxe Maxima, for example, comes equipped with a recorded woman's voice that croons a reminder to fasten your seat belt. Nissan will sell you a Datsun Sentra for as little as \$5,100. If you want the car with the talking lady, it will set you back \$11,500.

Japan's self-imposed export quotas expire next spring. What if Japanese producers, with all that spare capacity, do not go along with another voluntary extension? The betting is that President Reagan, with inflation still on his mind and free-trade impulses in his heart, will not press for anything else that would effectively protect U.S. automakers and their well-paid workers against the full brunt of foreign competition.

Under Smith, as under his immediate predecessors, GM's instinctive response to the new challenges seems to



James M. Roche
1967-71

Illinois poor boy without a college education; rose through the Cadillac division and eventually became Donner's protégé. Once risked strikes to desegregate a plant. In 1966, publicly apologized to Ralph Nader for GM's "dirty tricks" investigation of him. Popular inside the company. "Looks like an undertaker but hard as nails."



Richard C. Gerstenberg
1972-74

Started with GM as a Frigidaire timekeeper; specialties were cost control and budgets. Worked to eliminate boring jobs, but tough on absenteeism. A heartfelt passion for dry fly fishing. Response to Ted Kennedy's complex safety-related question during a Senate hearing: "You're talking to old Gerstenberg the bookkeeper—I'm no engineer."



Thomas A. Murphy
1974-80

Accountant by training; called "Murph" by his friends. Aimed to add "profitable new options" that would boost sales and to use cheaper substitute materials to cut costs. An avid reader, especially of "Peanuts." Area of consummate expertise: new-car pricing. Presided over introduction of subcompact Chevette in wake of OPEC oil crisis.

be: Spend more money. Speed up new product introductions. Build more big cars. Cut costs here and there. Really fundamental changes seem harder to make.

In the Twenties, when Sloan started reorganizing the troubled, sprawling company, he decreed that GM have five major car divisions. GM today still has those divisions. But what was once an array of nameplates positioned in the market with reasonable clarity—Chevrolet at the low end, Cadillac on the high end, and Pontiac, Oldsmobile and Buick spreading up through the middle—has over the years become a muddle in the minds of many car buyers. You can buy a four-door Buick Skyhawk for just a few hundred dollars more than a four-door Chevy Cavalier. Do the different nameplates still make sense?

GM's strength in the midprice range was the key to its once enviable profitability,* and Smith shows every sign of staying with that approach. As he pushes for renewed decentralization he plans to keep all five car divisions alive. Although compacts and subcompacts until recently account-

ed for 60% of the U.S. market, GM continues to regard the important small car market as an unpleasant aberration that will, if there is any justice in heaven, vanish. "Suppose someone found a way of making gasoline out of seawater and it dropped to a nickel a gallon," says Smith. "What would Japanese penetration of the U.S. market be right now? I don't think it would be anything."

If gasoline were to drop to a nickel a gallon. . . This is hyperbole, of course, but it is psychologically dangerous hyperbole. It ignores the fact that Japanese and German penetration of the U.S. market is based on a lot more than just fuel economy.

But what about fuel economy? Here, GM has made real progress, but the company suffered an unlucky break. Because of the emphasis on good mileage, the J-cars came to market with small, low-powered engines. When the price of gasoline softened, buyers looked elsewhere for performance, catching the company in a crossfire.

Another setback for GM in the small-car market was Ford's Escort, which from a standing start in 1980 has zoomed past the Chevy Chevette to become the bestselling subcompact in the U.S. today. It is probably true, as

industry gossip insists, that Ford is making no money on the car in the U.S. The margins are just too thin on a car that lists, stripped, for as low as \$5,500. Still, subcompacts will remain a major part of the market.

Analyst Arvid Jouppe, looking beyond the question of present profitability, thinks that GM's bias against small cars may be wrongheaded on other grounds. His case rests on the fundamental proposition that, in times of extraordinarily low demand, old notions about a proper return on equity are simply beside the point and shouldn't be applied. Companies that neglect market share because the return on equity looks thin, he thinks, will pay dearly for it later on when demand strengthens. "The major mistake GM management has made recently," Jouppe says, "is that they should have gone for volume instead of price. They moved price up while buyers were rebelling against what they were already charging them."

Smith himself seems to be coming around to that view. Recently announced 1983 prices are up, on average, less than 2%, compared with 1982's 6% average hike.

Smith's dealers, moreover, must have low-end models to show as traffic builders. So, as a concession to

*Sloan had set a 15% to 20% return on invested capital as a planning goal; more often than not, in the post-World War II years GM did much better

Previewing the 1990 models

There's no shortage of management talent at General Motors. If Roger Smith remains chairman until 1990, when he turns 65, the next chief executive may well be one of the three men pictured below. Two are relative long shots because they lack the typical financial background, but each man is now responsible for an important car line—where superior performance is bound to be noticed. Robert Stempel, 49, manages Chevrolet; William Hoglund, 48, is in charge of Pontiac and Lloyd Reuss, 46, runs the Buick line.

Of the three, Stempel is considered the hottest prospect, but he also has the toughest assignment: turning around troubled Chevrolet, the GM flagship that accounts for more than a third of company sales. Because the recession has been especially tough on young and low-income buyers, those who traditionally drive Chevies, Stempel must continue to play a waiting game and get ready for better days ahead.

Born and raised in New Jersey, he holds a Ph.D. in engineering from Worcester Polytechnic Institute and an M.B.A. from Michigan State. He's something of a visionary and sees fundamental changes in the way Americans are now viewing their cars. "Autos now compete with stereos, TV sets and vacations for disposable consumer dollars," explains Stempel. "Today there's more status in keeping the old jalopy running and taking a nice vacation than there is in buying a new car."

Tall, lean William Hoglund

looks like a GM chief. He also has the right credentials: Educated at Princeton and holder of an M.B.A. from Michigan, he picked up financial expertise as GM comptroller and now is getting some valuable line experience making cars. Hoglund is a gambler. His decisions to eliminate Pontiac's big cars to give the line a sporty, high-powered image will make him either a big winner or a big loser in the General Motors succession game.

Lloyd Reuss is the quiet dark horse and the candidate with a solid Midwestern background. Raised in Illinois, he's a graduate of the University of Missouri who joined GM as an engineer in 1959. Right now, he's at Buick, where the 6.5% sales decline for 1982 is less than half that at other GM divisions. If Stempel or Hoglund stumbles, he looks like a good bet.

Should Smith decide to leave the chairman's post early, however, the odds could change. His more likely successor might be someone older than Stempel, Hoglund or Reuss. GM chiefs typically take command in their mid-50s, with the usual financial experience. Two likely candidates include F. Alan Smith (no relation to Roger), 51, executive vice president and chief financial officer, and David Collier, 52, group executive in charge of the operations staffs group. If Smith or Collier becomes chairman, one of the three younger contenders could become president. The post could then become a stepping stone to the top job, something it isn't today.—T. O'D.



GM Chairman Roger Smith



Pontiac's William Hoglund



Chevy's Robert Stempel

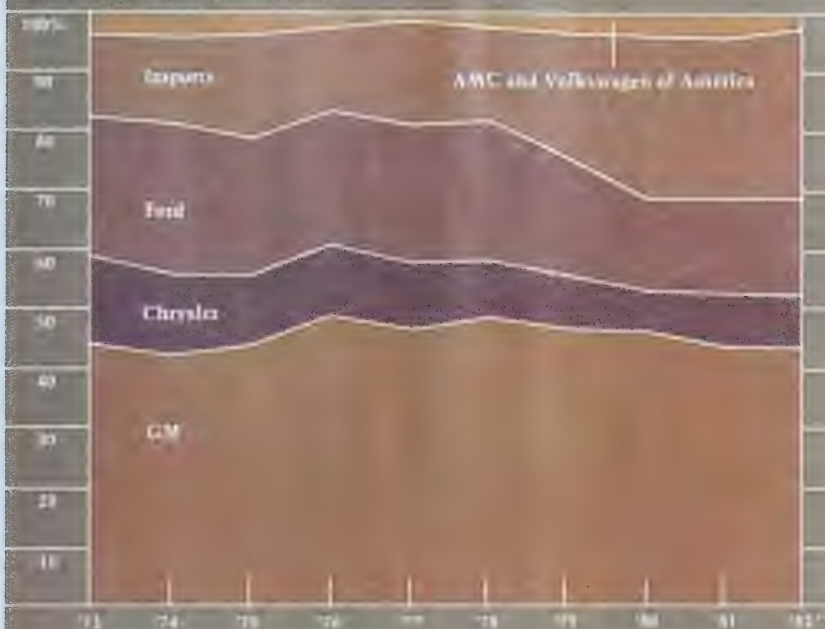


Buick's Lloyd Reuss

Does the system need a fix?

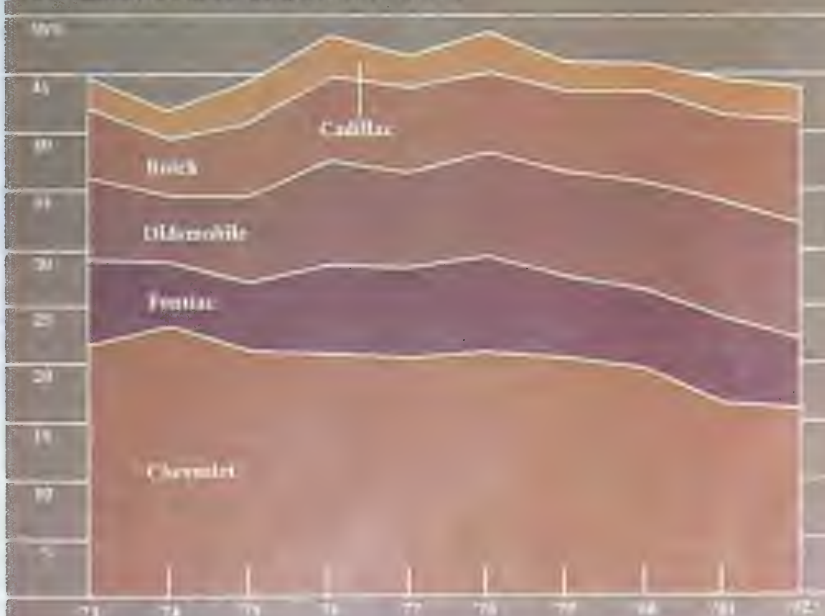
GM's share of the U.S. auto market has held remarkably steady over the past decade, but that masks lots of problems. Capital ratios are out of whack, operating margins are down—and the Japanese are selling medium-price cars, competing where GM is strongest.

U.S. auto sales (percent share)



Mighty Chevrolet once accounted for roughly half of GM's domestic sales, but now that figure is closer to one-third. Pontiac, too, is under pressure. With minimal differences among today's cars, critics wonder if it still makes sense for GM to offer five separate lines.

GM market share of U.S. auto sales



them but with an eye to limiting GM's cost commitment, Smith is going forward in a joint venture with Isuzu to produce subcompacts. In that deal the Japanese firm will do the manufacturing and GM will distribute through Chevrolet dealers in the U.S. Similar arrangements at the low end are contemplated with Suzuki and Toyota.

When Smith took over, GM was just about to launch, with much fanfare and under great time pressure, its J-car. In a sweat to meet competition from Chrysler and overseas, GM chose to cannibalize existing technology rather than build a new model from the ground up. In its various disguises, then, whether as the Chevy Cavalier, Pontiac J2000, Olds Firenza, Buick Skyhawk or even the Cadillac Cimarron, the J-car drew on the GM X-car that predated it by two years.

The J-car was, author Brock Yates will argue in his forthcoming book, *The Decline and Fall of the American Auto Industry*, "little more than a modest counterfeit of the machinery the Japanese were already beginning to phase out and replace." Since its launch in May 1981, by one GM estimate a total of just 200,000 J-cars have been sold—a considerable disappointment. Stretching the point, some critics refer to the J as the "Edsel of the Eighties."

About six months later, with Smith in his new office less than a year, GM launched its new front-wheel-drive A-car (Chevy Celebrity, Pontiac A6000, Oldsmobile Cutlass Ciera and Buick Century). There were numerous problems which accounted for poor sales, among them a confusing assortment of letters and similarity of models. For one thing, the front-wheel-drive A had to compete with similar but rear-wheel-drive G-cars and the cheaper X-cars.

No one doubts the ability of General Motors to survive. No one doubts either that if auto demand picks up in the next year or two, GM's tremendous manufacturing scale and the leverage inherent in the auto business will give it some good years. But that is not the ultimate question. The ultimate question is: Can GM adapt to a different world and adapt sufficiently well that it can become consistently profitable again? The evidence to date is not reassuring.

What would Alfred Sloan do? It's a good bet that he would be overhauling the entire GM system more drastically than his successors in the 1980s seem capable of doing. For the very system that once seemed to have institutionalized success may now be institutionalizing failure. ■

Cheerleader Supply Chairman Lawrence Herkimer demonstrating the "Herkie jump" at one of his clinics
"Once I get hold of a cheerleader, I never turn her loose."



Selling school spirit nationwide has been very good to Dallas' Lawrence Herkimer.

Go! Fight! Win!

By Anne Bagamery

JUMP, HERKIE, JUMP!" scream 1,200 clean-cut adolescents gathered on a steamy summer afternoon in Southern Methodist University's Moody Coliseum. With a shrug, Lawrence Herkimer hands his microphone to a colleague and obliges. Left arm akimbo, right arm to the heavens, left leg kicked forward and right leg bent back, Herkie jumps. The fans go wild.

Who is this portly 56-year-old, and what is he doing whipping a crowd of

teenagers into a frenzy like a rock star? Lawrence Herkimer, former SMU star cheerleader, claims to be the only human being to have a cheerleading move named after him—the Herkie jump. He is also founder, chairman and owner (with his family) of Cheerleader Supply Co., a \$20 million (sales) Dallas mini-conglomerate that trains and outfits most of the nation's 600,000-odd cheerleaders. Every additional school-child he can persuade to jump three feet in the air and yell "Fight!" is money in his pocket.

Cheerleader Supply overlooks little in the making of a cheerleader. Rookies need to learn the latest yells and tumbling routines: Herkimer and 300 college-age assistants run clinics across the country all summer long. Cheerleaders need uniforms: Cheerleader Supply knits sweaters, makes skirts and slacks, hand-hooks chenille emblems and orders dyed-to-match saddle shoes. Pom-poms: Cheerleader Supply holds a design patent and turns out 100 a week from its plant outside Houston.

There's more. Want to build school spirit before the big game? Cheerleader Supply sells tiny megaphones stamped with the school mascot and will custom-make plastic buttons with ribbons that read "Gig the Gladiators" or "Muzzle the Mustangs." Proceeds from the sale of these gew-gaws can then help finance the squad's trip to—that's right—the next cheerleading clinic. "Once I get hold of a cheerleader, I never turn her loose," says Herkimer.

And therein lies the real secret of Cheerleader Supply's success. Once a school places its first order for uniforms, it becomes a locked-in market: It will stick with that style and will need to reorder every year. The school

"That's business, not sexism, fans. Some 98% of the nation's cheerleaders are female."

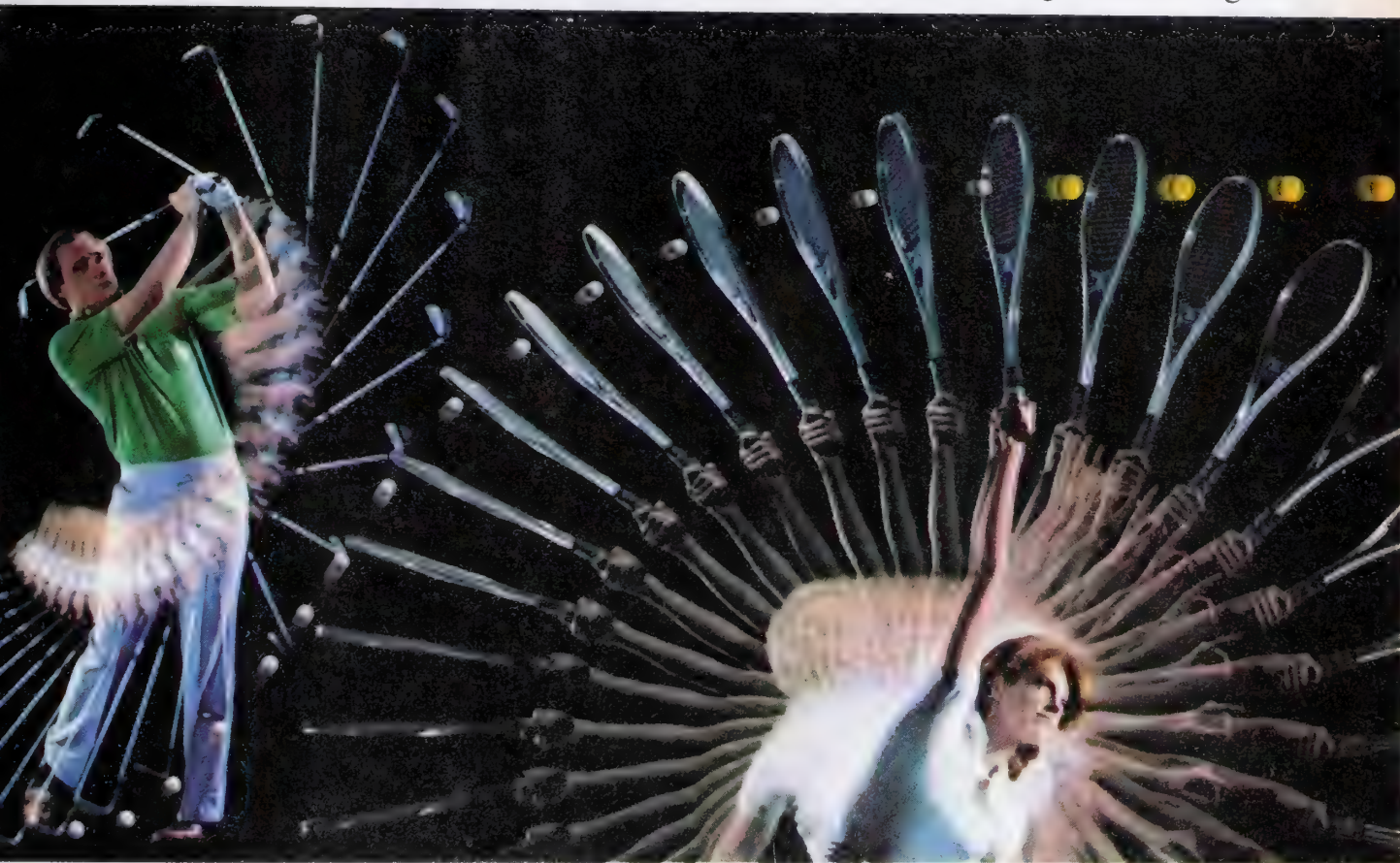
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Guess who's been stretching the truth?

In a recent ad, Playboy published its circulation figures to prove that a twenty-eight year old men's magazine can still have the vitality of a teenager.

Although impressive sounding, the numbers they cited did little to expose Playboy's true strength, but did a lot to cover up the fact that the old grey hare just ain't what he used to be

Playboy says: Playboy is the only magazine edited for men that has a circulation over 5 million

Fact: 48% of all Playboy's 5+ million circulation is in subscriptions. Half of that is in cut-rate subscriptions where, chances are, you wind up with a cut-rate reader

Playboy's newsstand circulation is little more than 2.6 million

Penthouse has a newsstand circulation of over 3.8 million, 94% of its total sales. Since the Penthouse reader pays full price for his magazine, he values it

Playboy says: Playboy is the only men's magazine of the nation's 11 largest circulation magazines

Fact: Of the nation's top 11 circulation magazines, Playboy's male readership dropped most dramatically. Over the past year it slipped 14%

Penthouse's male readership continues to rise, with a significant increase in young, up-scale male readers. According to SMRB, this Penthouse reader is more affluent, better educated, and holds a higher position in business than the reader of Playboy

Playboy says: The average issue of Playboy sells 962,000 more copies than a typical issue of Penthouse

Fact: According to the Audit Bureau of Circulation, every month consumers spend 3.5+ million dollars more for Penthouse at the newsstands than they do for Playboy. That's 42 million dollars more a year

Playboy's monthly circulation figures include old cut-rate subscriptions many readers have already outgrown and many gift subscriptions that may go unread

Playboy says: These figures are what makes Playboy the most powerful male magazine in publishing history.

Fact: These figures are what makes Penthouse the most vital of all men's magazines. But, why don't you be the judge. Whose figures are more attractive, Playboy or PENTHOUSE?

PENTHOUSE
Where the money is.

will also tend to give Cheerleader Supply its order for fundraising gear and will send its cheerleaders to the clinics. Landing that first order isn't much of a trick for Cheerleader Supply when a mythic figure like Herkimer is doing the selling: So far he has managed to get hold of two-thirds of the nation's 70,000 high school squads and over half of the 2,500 college squads.

It all adds up to the good life for Herkimer. By building on relationships with the schools and by keeping costs low with layers of integration, Cheerleader Supply has grown steadily for 30 years and, claims its founder, has never lost money. Last year pretax profits were \$2 million. Long-term debt is virtually nil. That's not bad, especially in a business that lets Herkimer pretend he never left school.

And, in a way, he never did. The grandson of German and Scottish im-

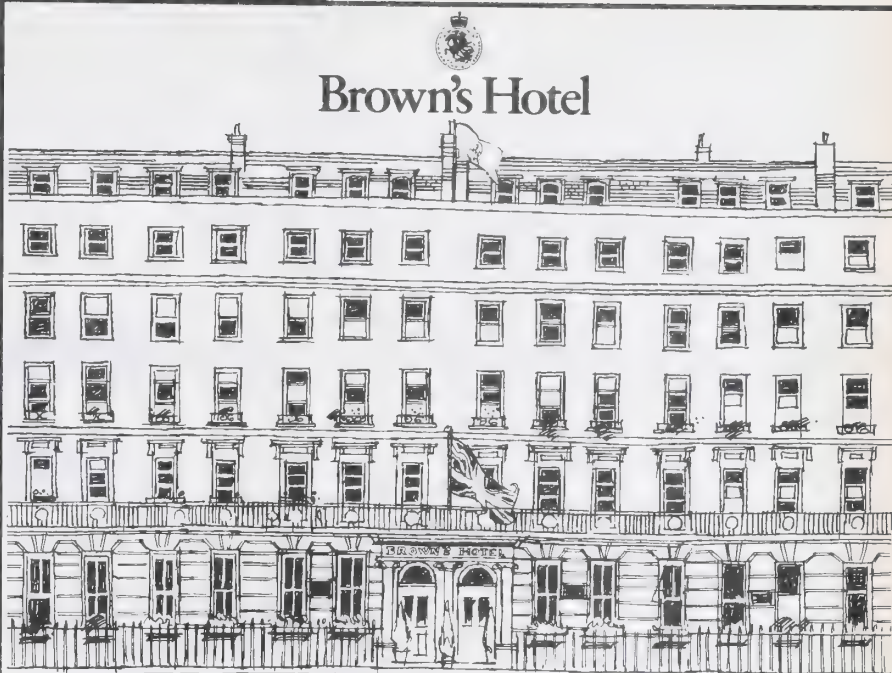
Once a school places an order with Cheerleader Supply, it becomes a locked-in market and will need to re-order every year.

migrants whose family left Michigan for Dallas, Herkimer was a high school gymnast, but SMU didn't have a gymnastics team. So he tried out for the cheerleading squad and was soon dazzling the crowds with his jumps and flips. By the time he graduated in 1948, national sportswriters had taken to calling him "Mr. Cheerleader."

After graduate school in physical education Herkimer took a job teaching gymnastics at SMU, but pretty soon rival schools were asking "Mr. Cheerleader" to train their squads on weekends. As his fame grew, so did his fees: One weekend at Ohio State earned him \$21,000, thanks to some shrewd bargaining. "I didn't really want to go, so I told them I'd come for \$5 a kid, or 5 times the usual fee," he says. "How could I have known they'd agree? Or that 4,200 kids would show up?"

That's when Herkimer decided to go into the school-spirit business for himself full time. At first Cheerleader Supply was a vehicle to promote the clinics and help Herkimer sell his books—*Championship Cheers and Chants* and *Pep Rally Skits and Stunts*. When schools started asking him to help them line up uniforms, Herkimer saw an opportunity. "Cheerleaders have very special requirements in clothes," he says, "not only

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a design but in delivery. You pick the squad in April, and the uniforms have to be there in August. And every school wants something special—braid trim on the sweater, two-color lining on the skirt. For four months of the year you're turning out special orders in small batches, and for eight months you're doing nothing."

Few manufacturers were willing to take subcontract work under those conditions, so Herkimer spent \$100,000 in the early 1960s, most of it his own, to buy a knitting mill and workshop in Cedar Hill, a rural town south of Dallas. Owning the plant gave him two advantages: quality control and eliminating the need to pay a premium for short-order work. Labor, too, came cheap from Cedar Hill farm women, who were needed at home in the spring and fall but could give Herkimer double overtime in the summer.

Herkimer has expanded Cheerleader Supply's clothing operations from that original workshop into a 13-acre complex in Cedar Hill. He also added product lines as he found bargains on old buildings to retrofit with new machines: A milk-carton factory made plastic megaphones and drinking cups, an old warehouse turns out extruded plastic buttons and badges.

Buying old buildings at a discount means Herkimer has avoided large chunks of construction debt. Now he says he borrows only short term to finance inventory and pays off the note out of cash flow at the end of the selling season. "I got my business training the best way—by jumping in with both feet," he says.

Lately Herkimer has been spending less time jumping around at clinics and more time around his North Dallas offices training instructors and dreaming up new products. He has also been dabbling in other ventures—a pricey French restaurant in Far North Dallas; a real estate venture with his friend Roger Staubach, the former quarterback with the Dallas Cowboys; the campaigns of conservative Republicans.

All the same, Herkimer never really gets excited until he talks about his first love. "Cheerleading is wonderful, colorful—and depression-proof," he says. How so? "Think about it. You're the parent of one of six little girls in a whole high school chosen to be a cheerleader. No matter how bad times are, are you going to tell your little girl she can't have her sweater and skirt and pom-poms? Hell, you'll sell her the boat before you have to tell her that."

Rah rah. ■

If you clean floors, do laundry or juggle numbers, there's an easy way to put some glamour in your business life. Become a health care company.

Hospital helpers

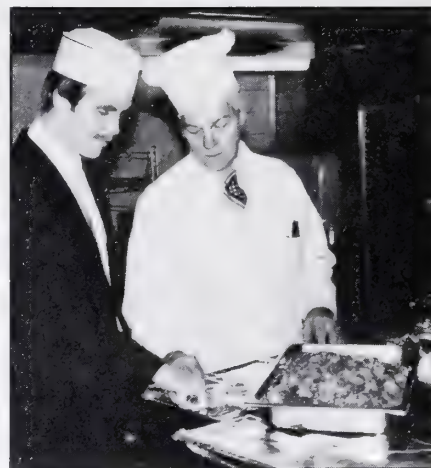
By William Harris

THE HOSPITAL MANAGEMENT business is amazing. Companies like American Medical International, Hospital Corp. of America, and Humana Inc. regularly report returns on equity of 20% and better than 25% growth in income. The recession doesn't faze them—and Wall Street still prescribes double-digit earnings multiples.

You don't, however, have to run an entire hospital to enjoy such glamour. Scores of companies in relatively mundane businesses have discovered that getting just a piece of the action can bring big rewards. Angelica Corp., for example, launders hospital sheets and wrings out regular 25%-plus earnings growth. Its stock price has quadrupled over the past two years. Shared Medical Systems automates hospital billing to maintain a multi-

ple of 20 times earnings. And ServiceMaster Industries stays even more spotless on Wall Street by scrubbing hospital corridors. Other lesser known outfits specialize in running hospital pharmacies or cooking those legendary meals.

Add it all up, and the hospital helper business is now a \$5 billion industry, growing by at least 20% a year. Because companies like Angelica, Shared Medical and ServiceMaster primarily serve nonprofit hospitals—"Why the hell should we contract out," says Don Amaral, chief financial officer of National Medical Enterprises' hospital group—their growth potential is huge. Roughly 90% of all hospital beds are still municipally or charitably operated. By hiring specialists to perform support services, these institutions can enjoy some of the efficiencies of their investor-owned counterparts without yielding control



Contracted hospital laundry and food services

Just getting a piece of the health care action can bring big rewards.

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New Issue / August 23, 1982



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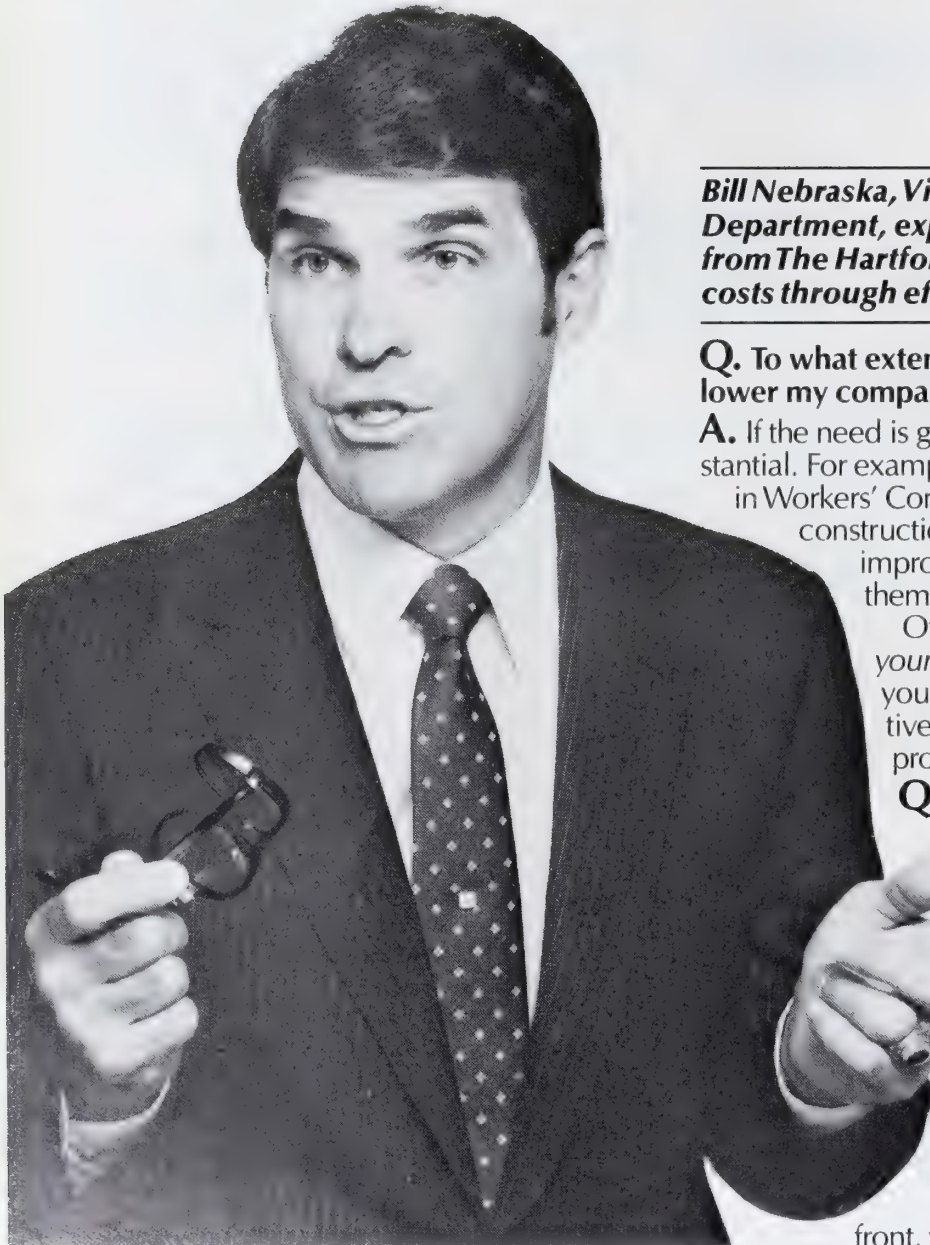
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Bill Nebraska, Vice President, Loss Control Department, explains how business insurance from The Hartford can lower your company's costs through effective Loss Control.

Q. To what extent can effective Loss Control lower my company's insurance costs?

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Of course, the amount of money your company can save depends on your particular situation and the effectiveness of your present Loss Control program.

Q. How can effective Loss Control reduce insurance costs up front?

A. One approach is to find ways to limit or contain potential losses. For instance, a metalworking and electronics firm in Chicago cut its fire insurance premium in half by following our recommendation to improve their existing sprinkler system.

By eliminating, reducing, controlling hazardous exposures up front, we may even qualify your company for additional discounts.

duce insurance costs.

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duced rates equivalent to those available
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s. And those potential savings apply whether
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How can improved Loss Control raise my company's productivity and profitability?

Loss Control equals operations control. In other
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In one case, we analyzed a warehouse operation
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tions to relieve congestion and improve work-flow
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accepted the recommendations, and instituted a
Loss Control education program that we proposed.
Thanks to those measures, in two years the per-
centage injury incident rate dropped more than seven
percentage points, resulting in a \$100,000 reduction
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Can controlling product liability losses also raise productivity and profitability?

Definitely. If your product liability claims stem
from defective products, for example, our Loss Con-
trol people will analyze your company's quality-
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tend to reduce the number of liability incidents and
claims. At the same time, those quality control
improvements may also lead to a lower product
reject rate and fewer returns for replacement or
repair. The savings—in insurance, production and
labor costs—can be significant.

Q. Why is it shortsighted to just buy the lowest- priced insurance available?

A. Bottom line, insurance that doesn't protect is no
bargain at any price. At The Hartford, we work with
our agents to determine your actual exposures, then
find the best way to control or cover those expo-
sures. That's the only sensible approach to business
insurance. And it's often the most economical
approach as well.

Q. How can I put Hartford Loss Control capabil- ity to work for my company's benefit?

A. Loss Control is an integral part of
Hartford business coverages. For infor-
mation, contact an independent agent who
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Chores like laundry, housekeeping and data processing eat up less than 10% of a hospital's annual operating budget. But keeping these unglamorous service jobs staffed has always been tough. Along comes ServiceMaster, which can keep its janitors happy by offering career opportunities and, eventually, stock options. That's one less administrative headache. At the same time, ServiceMaster claims to save money through its own operating efficiencies. Or take data processing. By contracting it out, hospitals need not worry about having to compete for top-notch programming talent or buying expensive equipment.

The industry got its start 20 years ago when ServiceMaster, a regional rug cleaner based in suburban Chicago, began mopping hospital floors. Thanks to the foresight of Chairman Kenneth Wessner, the company is now the largest of the hospital help-

If ServiceMaster is the oldest company in the hospital service business, data processing probably offers the best growth opportunities. What with complicated reimbursement procedures, hospital accounting is particularly complex, and the savings from automation can be significant. Some 30 companies are trying to grab a piece of this specialized market, including the likes of McDonnell Douglas and IBM. Shared Medical Systems outside Philadelphia is the largest and best-known independent, now serving 550 U.S. hospitals. Last year it earned \$16.6 million on sales of \$132 million.

Thirteen-year-old SMS, however, did not originate the idea of selling computer time-sharing service to hospitals. In 1963 accountant Walter Huff devised such a system for eight religious-affiliated institutions in Illinois. That software and hardware were eventually sold to McDonnell Douglas, netting enough, Huff says,

ket value of \$190.8 million.

Even the skimpiest health care connection can invigorate a company's stock performance. Take Angelica, a 105-year-old maker of uniforms. Shares in this St. Louis-based company sold for just above book value 20 years ago. But in 1969 Angelica acquired a laundry business and started moving into hospital linen service. Today Angelica's stock trades a shade under twice book value.

Angelica, which earned \$12 million last year on revenues of just over \$200 million, still makes uniforms for chefs, waitresses and even hospital workers, but its laundry operations provide most of the company's growth. Last year they contributed 40% of sales and 45% of profits. President Leslie Loewe, who has been with Angelica 35 years, expects his laundry volume to triple by 1986. He does business just like a neighborhood store. Angelica, however, owns the linen it washes and rents to its 300 hospital customers. That means Angelica doesn't have to keep St. Mary's sheets separate from United Methodist's.

Again, the potential is huge. Hospitals spend some \$2 billion annually on laundry, but over 50% of all health care institutions do their own washing. Loewe tries to sell the idea that in-house laundries aren't needed. "Laundries don't contribute to a hospital's profitability," he says. "The space might be better used for high-margined therapies."

This logic appeals to hospital management chains—which is why laundry services are one of the few tasks they are willing to contract out.

At the moment, however, Loewe can efficiently serve only those hospitals within a 100-mile radius of his 19 laundries. Not surprisingly, he's looking to buy more.

Do hospital helpers actually save money for their customers? Probably. After all, the not-for-profit sector hasn't paid much attention to things like how much Windex the janitors are spraying or whether the book-keeping department is wasting paper. Beyond this, just not having to worry about many of these labor-intensive functions makes life easier for harried hospital administrators.

The real message here, however, is for other potential suppliers. Without their health care patina, many of these convenience peddlers would be in decidedly dull businesses. If you sell light bulbs, cook food or even manage parking lots, sit back and figure out a way to climb aboard the hospital bandwagon. It's a prescription for a higher stock price. ■



Automating patient data, setting up housekeeping

Keeping these unglamorous service jobs staffed has always been tough.

ers, with sales of \$502 million. Wessner, who boasts his vacuum cleaners sweep up lint in half the time it takes your Hoover, is a deeply religious man. He sprinkles Biblical aphorisms throughout his annual report. The name ServiceMaster derives from "serving the Master," and the company's 4,500-person, largely non-union, staff is singularly loyal and hardworking.

The dedication pays off. ServiceMaster consistently chalks up 20% sales and earnings gains. Last year the company earned \$17.7 million, and return on equity has averaged a sparkling 31% for the past five years. Debt? ServiceMaster doesn't owe a penny. What's more, although Wessner does business with 75% of the hospitals that use outside janitorial contractors, ServiceMaster is working in only 1,000 institutions. There are 4,000 more waiting to be scrubbed.

to create a very comfortable pension fund for 300 nuns. Today he runs HBO & Co., a business he helped launch in 1974.

Instead of hawking computer time to hospitals, HBO leases turnkey systems—a collection of minicomputers plus proprietary operating programs. Its package goes beyond accounting and keeps track of patient information, eliminating the need to remember if someone has been billed for all the tetracycline he has swallowed.

This concept, dubbed patient management, is the newest trend in hospital data processing. Some 250 institutions have already signed up for HBO's service, and Huff has even cracked the hospital management chains. Wall Street knows all about this success: HBO, which earned \$5 million in 1981 on \$39 million in sales, went public last summer. Its shares carry a multiple of 31.5 times earnings, and the company has a mar-

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If foreign automakers weren't around, life would be easy in Detroit, right? Before you answer, read about what's happening today in the bicycle industry.

Is this business built for two?

By Jeff Blyskal

THE NEW JERSEY DEALER WALKS his sales floor glumly. Unsold 1982 models rest fender-to-fender on tires so clean they still smell like freshly pressed rubber. The chrome sparkles like jewelry. "People just aren't buying," he complains.

These aren't cars, they're bicycles, and people who sell them are feeling the recession, too. There is, however, a striking difference between the \$1 billion-a-year bicycle business and 100-times-bigger Detroit. While both have faced stiff foreign competition, bikemakers roundly routed their enemy by cutting production costs (FORBES, Dec. 14, 1979). Imports have fallen from 37% of the total market ten years ago to just 25% today.

But that doesn't mean everyone can go home and relax now; in fact, the fighting among domestic manufacturers is all the more intense. Industrywide, bicycle sales are off 38% from 1979. Blame the economy in part, but also blame video games. Kids are using their quarters to play Pac-Man, and these days expensive home video games get a better reception under the Christmas tree than a shiny two-wheeler.

There are six major domestic bike producers, but the current contest is really between the top two firms, Dayton-based Huffy Corp., which owns 40% of the market, and Murray Ohio

Manufacturing in second place with a 33% share. At least two competitors, AMF's wheel goods division and privately owned Schwinn, are rumored to be takeover candidates because of poor performance. Meanwhile, Columbia, a subsidiary of privately held MTD Products, is becoming surprisingly aggressive.

The battle between Huffy and Murray began in the mid-Sixties. Then

Huffy was a clear number two but saw the burgeoning potential of serving fast-growing discounters such as K mart, Woolco and Target and chains such as Toys 'R' Us and Child World. Industry leader Murray had always done a big business making private-label bikes for Sears and Penney—but the market was growing faster elsewhere, and Huffy acted first. "They've always been more aggressive," explains Katie Gambill of Nashville's Equitable Securities.

By the early Seventies Murray was still ahead, with an almost 30% market share, but Huffy—about 23% and growing—was closing the gap. In 1972 Stuart Northrop, who had been president of a Singer division, became president, and again Huffy was first to see an important trend: Consumers wanted name-brand bikes more than store brands. So Northrop started advertising on television to develop the Huffy label. "We took a mundane business with standard colors and made it into a fashion business, like automobiles," says Huffy CEO Harry Shaw. Today, 60% of Murray's bikes are still lower-margined private-label merchandise. Huffy, meanwhile, is the bestselling bike brand in America—ahead even of Schwinn, the most widely recognized name.

"Ten years ago, when people asked me for an American bike, they wanted Schwinn," says Sal Corso, owner of New York's Stuyvesant Bicycle, which sells some 10,000 bikes per year. "Today they ask for Huffy. And believe it or not, even with all my selection—3,000 bikes in inventory—I had one customer walk out because I didn't have a Huffy Thunder Road."

During the bike boom of the early Seventies, both Huffy and Murray boosted capacity and automated production, building a cost advantage that helped them knock off competitive imports. But in 1973 Huffy eyed another important trend in kids' bikes—half a decade before Murray. It quickly developed a "knockoff" of the motorcross MX bicycle, a ground-hugging, knobby-tired racer for kids, which resembles a motorcycle dirt bike. Today, the successor BMX version, which retails between \$70 and \$300, is the only



Lacing wheels at a bicycle factory

Recession, stiff competition—but how to beat Pac-Man?

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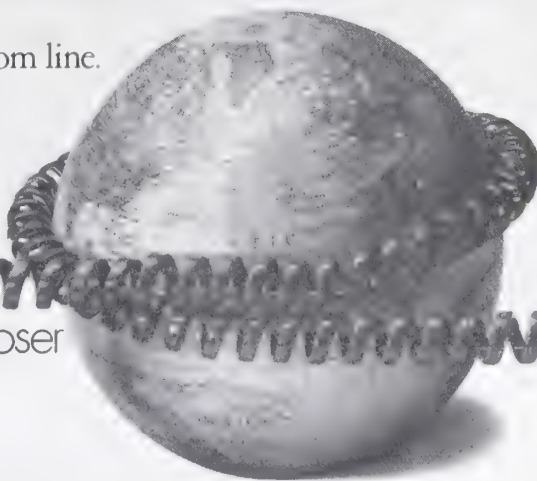
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Dial Rate				
Region	Rate Levels	First Minute	Additional Minute	Hours
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	Discount	1.56	.95	1pm-6pm
	Economy	1.25	.76	6pm-7am
EUROPE	Standard	\$2.37	\$1.33	7am-1pm
	Discount	1.78	1.00	1pm-6pm
	Economy	1.42	.80	6pm-7am
PACIFIC	Standard	\$4.22	\$1.58	5pm-11pm
	Discount	3.17	1.19	10am-5pm
	Economy	2.53	.95	11pm-10am

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Psst. Wanna bike that can't miss?

It should be no surprise that the recession has given bicycle sales a flat tire. Just four years ago Americans purchased 10.8 million bikes; this year they might buy 6.7 million. But one style of bike—the BMX, short for bicycle motorcross—is still charging hard. This year an estimated 2.7 million BMX bikes will be sold in the U.S., up from 2.2 million in 1979. "BMX is strong as hell," says Bill Quinn, publisher of *Bicycle Journal*.

The bike was created in a southern California field in 1970 by children imitating motorcycle dirt bike racers. Today, it has spawned a racing cult with some 100,000 active participants and six official sanctioning groups. The daredevil design—20-inch wheels, deep-tread tires, padding, no fenders—also makes the BMX a popular way for the under-15 set to get around, but for many kids the BMX is a second bike primarily used for fun.

That means racing. BMX owners generally meet at a local track on Saturdays and Sundays. Starting on a hill, the racers snake around 600- to 1,000-foot dirt tracks containing a grueling obstacle course of jumps, dips and banked turns. A

top racer can finish 36 grimy seconds after leaving the starting gate. "It's an excellent sport that involves the whole family," says Larry Greer of the American Bicycle Association, a 75,000-member BMX sanctioning group.

There are over 600 active BMX tracks, and the sport is attracting cable television coverage. This year Entertainment Sports Programming Network began televising races; it may also be in Oklahoma City at Thanksgiving for the BMX Grand Nationals.

As if additional plugging were necessary, BMX bike sales got an extra boost in the climactic chase scenes of *E.T.: The Extra-terrestrial*. In the movie, a phalanx of preteens takes to BMXs to help spirit E.T. away from the authorities and back to his spacecraft. In the process they jump cliffs and hills, cut off police cars and slip-slide through the dirt of a construction project, before finally flying into the air Peter Pan-like at the hands of E.T.'s mysterious powers. In the movie you can't really tell those are foreign-made bikes, says Huff's Harry Shaw. "So it's a boost for everyone who sells them."—J.B.



E.T.'s two-wheeled chase scene

The BMX gets a boost from Hollywood.

bright spot in the market (see box).

Huffy's alert boldness translated into its market leadership during the mid-Seventies—and Murray Ohio has only recently begun to see the sense in Huff's strategy. One reason is John Duncan, who moved from Singer to become Murray's executive vice president in 1978. Around that time the company boosted advertising to lift Murray's brand identity and copied Huff's use of independent sales reps. "Duncan was the worst thing that could have happened to Huff," says one industry expert. Luckily—for Huff—Duncan "resigned" last January after "management style differences" with William Hannon, Murray's hard-nosed chairman, who controls 7.2% of the company's stock. Duncan, now back at Singer, won't comment, and Hannon refuses to discuss Murray's strategy.

Huff, meanwhile, is making yet another aggressive move. In April it acquired the right to manufacture and sell the high-priced TI Raleigh line in bicycle shops, a high-margin 25% segment of the market ignored by the mass manufacturers until now. This move, however, may expand Huff's market for its low-priced bikes, too. "To survive in the future, bike dealers and manufacturers will have to cover all the markets," says Corso.

That puts pressure on Murray—it needs a big-name brand to sell high-priced models. "Huff has put its cards on the table and said, 'Here's where the market is going,'" says Ed Schwinn. "If they're right, Murray will have to make a similar move." But what? One possibility is a Murray/Schwinn merger, although Schwinn says his company is not for sale.

All of Huff's fancy, fast riding, of course, has not been without risk. Last spring, in what Shaw admits was an attempt to gain market share, the company took a flip over the handlebars. Looking for a midyear recovery, Huff cranked up production. Murray waited. When the economy didn't act as expected Shaw was stuck with a lot of bikes—30% more than needed. That's why Murray posted a \$1.1 million profit in the June quarter to Huff's \$1.8 million loss.

The race is for more than just three months, however, and over the decade Huff's gains have filtered down to investors. Anyone who paid the rock-bottom price of near 6 for Huff in 1972 would have nearly doubled his money, even with the stock at its current 39-month low of 10. Murray shareholders, however, paid about 20 at the bottom in 1972. Price today: 14½. Victory goes to the swift. ■

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Despite the recession, folks took trips this summer. They just didn't spend money. That's why \$10 log cabins were booked solid while \$60 motel rooms were not.

Vacations on the cheap

By Barbara Rudolph
and Robert Teitelman

TAKING A VACATION isn't quite like buying cigarettes or liquor—consumer purchases that always seem immune to the economy—but it's close. Come what may, people like taking summer holidays. This year the recession didn't keep them home. They just took cheaper vacations.

What's more, because gasoline was available and less expensive, travelers were willing to clock more mileage to get where they were going. The Travel Data Center, an industry group, reports that the distance typically traveled was up 2%. "People took vacations; they just stayed in places that they would have driven by a few years ago," says Ken Hornback, chief of statistics at the National Park Service.

That helped some hotel chains and hurt others. Motels near highways, for example, did well. One chain, Quality Inns, just had a record year. It's the higher-class hotels, such as Hiltons and Sheratons, that suffered—with occupancy rates of around 70%.

The South was the most popular destination this summer, thanks to the lasting appeal of Disney World and the World's Fair in Knoxville. Though average daily attendance was down 15% from its first-month high, and cut-rate tickets were made available, the fair was a focal point for many family vacations. That helped business in other southern cities. Tourism was up at least 10% in Savannah, for example. The Grand Ole Opry in Nashville and the Great Smoky Mountains National Park in Tennessee both did well.

Outside the South, it was mainly cheaper destinations that bucked the recession. Visitors to Atlantic City

were up 13.7% by July, but Las Vegas continued on a bad roll, with business off slightly. Tourist travel to Washington, D.C. was off some 10%. "Everybody's crying the blues," says a spokesman for the Convention & Visitors Association. Meanwhile, tourism in California parks was up a sunny 13%. Vacationers were thriftier, too: Demand for souvenir ashtrays and

ness," says Don Ryan, president of KOA's camping group. On 26 of his sites he has opened log cabins, which have been a runaway success. Six people can sleep on bunk beds in a small room for as low as \$10—if they can get reservations.

Of course, it helps that KOA is not at all dependent on foreign tourist traffic, which was off 4% this summer. Chalk this up to the strong dollar. That hurt places long popular with foreigners, such as the Grand Canyon. Canadian tourism was off dramatically, too—and so was business in the Niagara Falls and Lake George regions in upstate New York.

American travel abroad was up this summer—but only slightly and with increasing reliance on charters and group tours. "Creative routing" is big, says Thomas Cook Travel spokesman Carol Walsh. That's travel agent talk for sending people to cities they don't necessarily want to see because it comes with the budget package. The result: more stops in Brussels and Frankfurt.

This year, more than ever, there were curious vacation quirks. Virginia's Virginia Beach, for example, had a



Michigan campsite

"People stayed in places they would have driven by a few years ago."

key chains was down. At the annual ten-day Frontier Days celebration in Cheyenne, expensive jewelry sold well, while trinkets were a bust.

Campgrounds—the ultimate cheap accommodation—did a booming business. Montana-based campground operator KOA Inc., for example, surpassed the level of bookings it set in 1978, even though the chain had 70 fewer locations than it did then. KOA charges \$10 a night for the right to park a trailer on its premises. "Clean rest rooms are the guts of our busi-

good summer after a slow start, while business in nearby Williamsburg was dismal. Busch Gardens, a popular attraction there, reports that attendance was down 12%. How come? Allan Wilbur, public relations director at AAA—the man who talks to hundreds of American travelers every year—has an explanation: "People are taking deferred vacations this year. If they couldn't afford one for the past few years, now, when they go, they just want to go have fun—and forget the educational/historic spots." ■

Executive Style

A Forbes Special Advertising Supplement

Style is more than how one chooses to dress for business, leisure or formal occasions. It is also an extension of one's personality. For some, it is a conventional attitude toward clothes; for others it is a traditional stance; and for still others an international one. Today's menswear has many looks.

Written by Jack Hyde

Executive Style

Office Attire

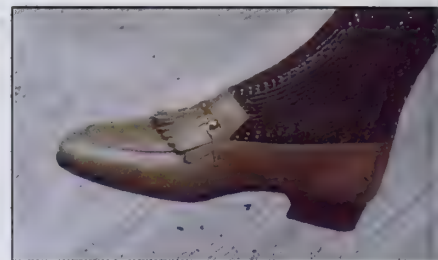
The well turned-out man is a well-accessorized individual. For if, as legend has it, clothes make the man, appropriate accessories complete the image.



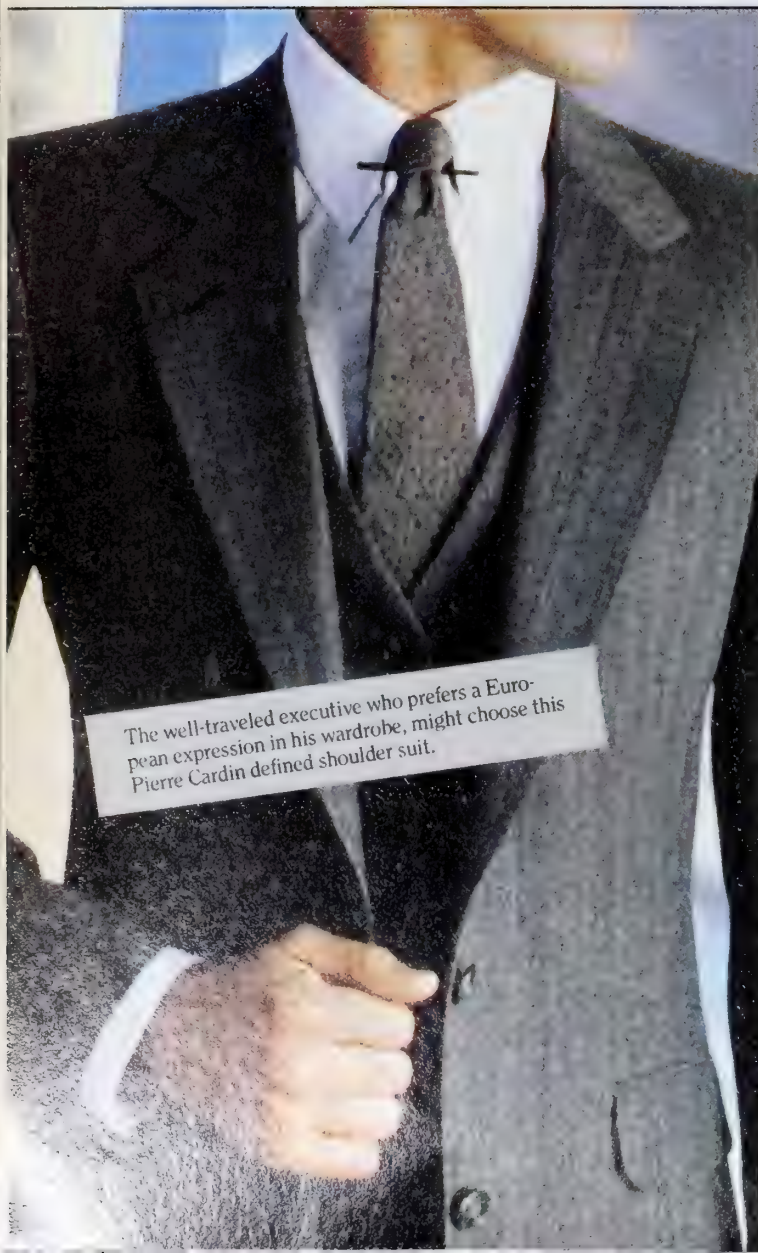
Another Warden-Brooks tie for Moody's division of Dun & Bradstreet.



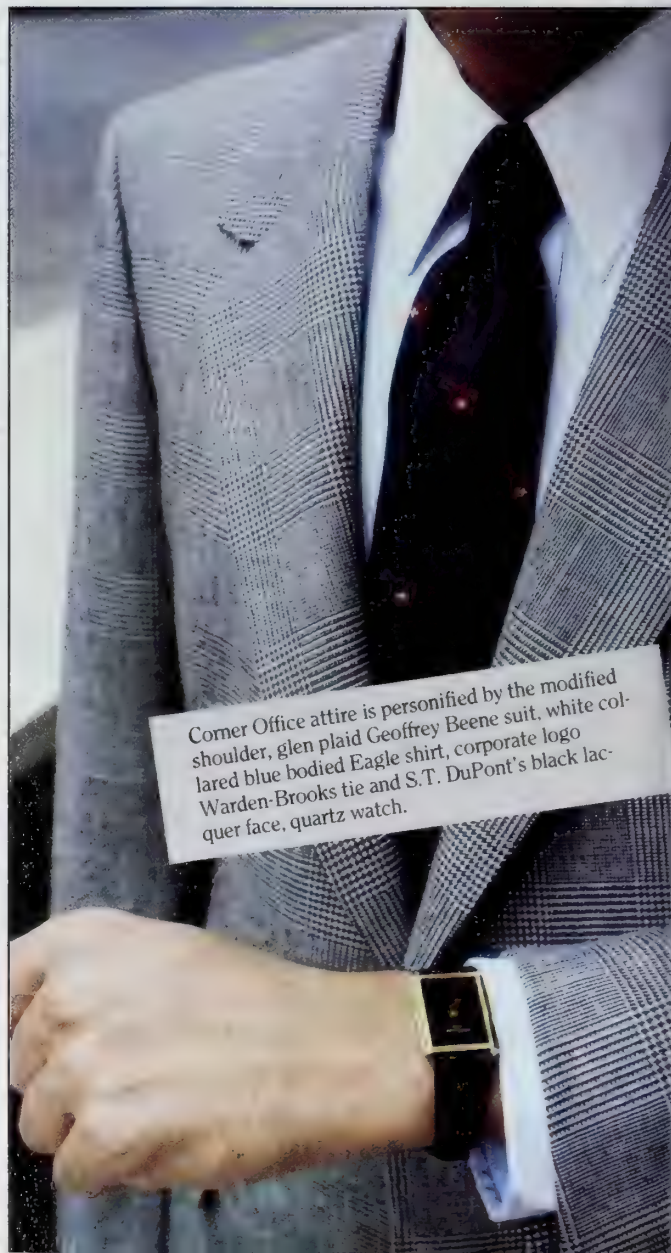
Plain toe, tassel-tie oxford from Johnston & Murphy Artistocraft collection. Christian Dior's initials are woven into the clock of cotton/nylon sock.



Kiltie Bruno Mali shoes with Henry Grethel socks.



The well-traveled executive who prefers a European expression in his wardrobe, might choose this Pierre Cardin defined shoulder suit.



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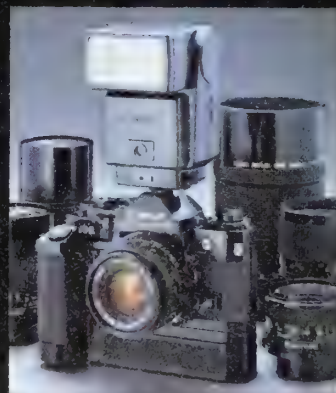
2 Aperture-Priority: Control the area in focus by selecting the lens opening for the effect you want. The A-1 matches with the right speed.

3 Programmed: When you need to shoot fast, just focus. The A-1 will select *both speed and aperture* for great results.

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Executive Style

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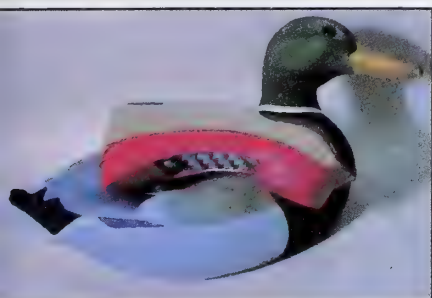
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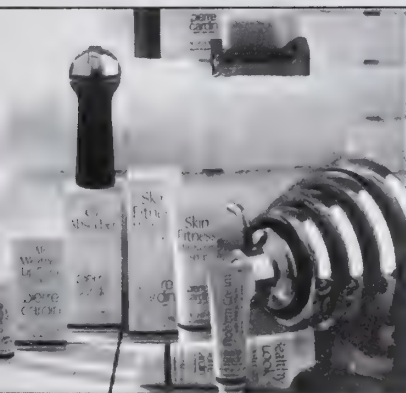
Executive Style

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Though fewer in number and species, wild game still roam the African subcontinent. Nikon-armed visitors can stalk prey in comfort on scores of preserves. And for the hunter, trophies can still be taken—legally, but expensively.

Just to look at the animals...

I am staring at the face of a lion that is resting on the ground 15 yards from me. She is big, at least 300 pounds. Around her are four other reclining females and seven or eight cubs. These cats have no reason to charge; I'm keeping still and quiet, as I have been told. But if one were to come at me unexpectedly, no metal bars would stop her—this is not a zoo or a fenced-in American game park. This is Africa, and one approaches the lions that live here with respect and caution. No zookeeper feeds these predators; they have to kill their own dinner.

Six other passengers are with me in an uncovered Land Rover. Each of us glances from time to time at the rifle that is propped against the knee of Cliff, our driver. Cliff is a 22-year-old Zimbabwean who works as a game ranger here at Mala Mala, a private South African reserve bordering on the enormous Kruger National Park.

My fellow game spotters are an Australian couple, a British engineering professor and a British couple accompanied by their 4-year-old daughter, Laura. The girl has behaved well today, our first day at Mala Mala, but now she points toward the big cats and exclaims, "Lions, Mummy!" Her parents quiet her. Cliff's hand is wrapped around the gun barrel as he stares ahead. He has never had to shoot a lion to protect tourists, he says—not yet anyway.

The biggest lion is lying still, except for the tufted tip of her tail, which, with a methodical swish, lifts a few inches and drops, lifts and drops.

By Kevin McManus

Personal Affairs

Edited by William G. Flanagan

This two-day safari has brought us deep into the African bush, but the other guests and I aren't exactly roughing it. Mala Mala, like a handful of other exclusive resorts in southern and eastern Africa, offers the visitor very comfortable accommodations in a setting that is practically all virgin forest and savannah. Bumping along a narrow dirt track through densely bushed country, it is virtually impossible to figure out where the camp is,

just a few minutes after you have driven away from it.

Over 200 species of wildlife roam Mala Mala, which is fenced only where it abuts Kruger Park. Most of the animals range far and wide, and so are likely to turn up just about anywhere. Visitors come to observe and photograph the Big Five—buffalo, rhino, elephant, lion and leopard—and are certain also to spot giraffes, wildebeests, monkeys, baboons, warthogs, impala, kudu and other ground creatures, as well as hundreds and hundreds of birds. "About the only beasts you will not spot are herds of raucous tourists," commented *The Hideaway Report*, a travel newsletter.

Visitors take three-hour game-spotting rides each morning and afternoon. Six or seven guests ride in a Land Rover that is driven by a ranger, who also acts as the group's host while they are in camp. Perched on an elevated seat at the vehicle's rear is a game spotter.

Like the other spotters, ours is a member of the black tribe that populates this region. Albert can speak English but communicates with Cliff in his tribal language, Shangaan. Whenever Albert notices a significant stirring in the bush that Cliff has missed, he whistles and Cliff comes to a stop so we can take a look. The rangers keep in touch with each other by radio, one calling the others whenever something big has been spotted.

As we watch now, a sleeping lion wakes up and growls a bit, shifts position and goes back to sleep. "Most of the day they sleep," Cliff tells



The lioness takes pause

us. "They like to move around at night. The female is the main hunter and the male often helps."

He whispers hoarsely, telling us a fact every 30 seconds or so: Lions, he says, are wife beaters and husband beaters. There are between 70 and 90 of them in the reserve. Counting them can be very difficult. A lion's breath is abominable, and the sound of its roar can carry for several miles. Lions apparently cannot distinguish humans from a vehicle in which they are seated, and Cliff has instructed us not to stand up, though picture-taking is permissible.

Laura has begun to fidget again, so we depart. A few minutes later we come upon a herd of impala, 50 strong, all sizes. They are parallel with us 20 yards from the road, leaping gracefully. "They seem to leap just because they like it," someone says. "They show off a lot," Cliff replies. "They're very proud of themselves."

Cliff likes to show off his driving skill; he seems to take much pleasure in crashing directly through the bush to bring us up close to big animals, tires be damned. Saplings snap and flatten before the Land Rover as we drive on. "Watch out for thorns," Cliff calls out now, and we shield our faces with our forearms.

Rounding a bend we see the Sand River at the bottom of a hill. Not far from the river we come to an area littered with clumps of dung like brown withered pumpkins. Compliments of a passing buffalo herd, Cliff explains. And those bigger droppings over there were left by a white rhino. "That's how the rhino marks his territory." Two baboons bounce across the road, followed by three others. In the top branches of a dead tree are vulture nests as big as TVs.

At dusk we stop for drinks. From a Styrofoam cooler in the rear of the Land Rover, Cliff removes a carton of milk and a straw, for Laura. The rest of us sip beer and wine. By the time we are ready to move off, the sky is full of stars and the air temperature has dropped down into the low 50s.

During the ride back to camp I begin to wish I had worn a heavy parka instead of the sweater I have on. Even with a blanket wrapped around me I shiver in the stiff breeze (the Land Rover has no windshield). I make a mental note to advise anyone who comes for a visit here during the South African winter (May through September) to bring along a lined jacket, gloves and a warm ski cap.

Cliff earlier said the evening was a good time to look for leopards, but the animals Albert finds with the

Where to view game

Kruger National Park, South Africa. 240 miles northeast of Johannesburg, has the greatest variety of animals of any of South Africa's game parks. Lodging is provided in 14 rest camps offering thatched huts and bungalows. The park has seven entrances, four of which have camps attached to them. Nightly accommodations in the park range from \$10 to \$25 for two people, plus a nominal park admission fee.

Bordering Kruger are several private reserves with facilities similar to *Mala Mala's*. Average cost per night, including meals and ranger-assisted game walks or drives, is about \$100 per person. For information contact the South African Tourist Corp., 610 Fifth Ave., New York, N.Y. 10020; (212) 245-3720.

The following list describes key game viewing areas in four African countries that are well equipped to receive tourists.

Kenya. Wildlife in Tsavo National Park, Amboseli Game Reserve, Ma-

sai Mara Game Reserve. Good bets: Mt. Kenya Safari Club and Treetops Hotel, which are both near Mt. Kenya. Contact Kenya Tourist Office, 60 E. 56th St., New York, N.Y. 10022; (212) 486-1300.

Tanzania. Wildlife in Serengeti National Park and Lake Manyara National Park. Mt. Kilimanjaro in the northeast. Good bets: Lake Manyara Hotel, Seronera Wildlife Lodge (near Serengeti). Contact Tanzania Tourist Corp., 201 E. 42nd St., New York, N.Y. 10017; (212) 986-7124.

Zambia. Wildlife in Luangwa National Park, Kafue National Park, Sumbu National Park. Best bets: Chichele Lodge (Luangwa), Musungwa Safari Lodge (Kafue). Contact Zambia National Tourist Board, 237 E. 52nd St., New York, N.Y. 10022; (212) 758-9450.

Botswana. Extraordinary birds in Okavango Delta. Good bets: Island Safari Lodge, Xaxaba Camp, Khwai River Lodge. Contact Botswana Embassy, 4301 Connecticut Ave. NW, Washington, D.C.; (202) 244-4990.

Where to stalk game

You may prefer to stalk game with a .375 H&H instead of a Nikon. If so, Africa still is the place to hunt—legally. The thrill will not come cheap, of course. A 28-day safari, with your own professional guide, can cost \$40,000 or more.

But if you aren't too choosy about species, and don't mind sharing a guide with another hunter, a 10-day hunt can cost less than \$10,000. The success of your safari depends on three things: your expectations, your professional guide and your choice of locale. Plus, of course, your own hunting ability. Don't expect, for example, to bag all the Big Five—lion, leopard, rhino, elephant and cape buffalo—in one place. Most safaris are conducted on private ranches and government-owned concessions, and none offers such a wide variety.

If you are determined to bring home a superb lion trophy, a Botswana hunt may be in order. Zaire is the place to go for the best elephants, and the only country in which to hunt the elusive mountain nyala is Ethiopia.

What makes a good professional hunter? "A lot of things," says Alex Brant, editor of the *Hunting Report*, a newsletter published in New York. "One is the ability to understand the habits of game and how to get the client a shot at them and keep the client safe.

"Another is the ability to judge trophy quality. Another is a sense of integrity. If the client wounds an animal, for example, the good professional hunter will go in and finish the job humanely, despite the danger involved."

African countries differ not only in their native species but also in the cost of licenses and trophy fees, quality and quantity of game ranch operators and political stability. Below is a rundown of the hunting conditions prevailing in nine countries. Comments are those of Alex Brant.

The daily rate typically includes food, lodging, a vehicle and the services of the professional hunter and his trackers and skinners. License and trophy fees are extra and should be factored into any comparison between two operators. That is, a lower daily rate doesn't always make for a less expensive safari. Other extras are airfare, trophy shipment and, of



1. Masai Mara Game Reserve
2. Amboseli Game Reserve
3. Tsavo National Park
4. Serengeti National Park
5. Lake Manyara National Park
6. Lake Sumbu National Park
7. Luangwa National Park
8. Kafue National Park
9. Wankie National Park
10. Kruger National Park
11. Mala Mala

course, guns, ammunition and liquor. Tipping? Usually several hundred dollars.

Note: It's a good idea to double-check if a country is safe to visit. Call the State Department in Washington (202-632-5255). For up-to-date reports on other conditions affecting hunting in Africa and elsewhere, one good source is the monthly *Hunting Report*. U.S. subscriptions \$60 a year; write to G.P.O. Box 1742, New York, N.Y. 10116. Another is AFRICA—The African Travel Association, 163 W. 23rd St. 4R, New York, N.Y. 10011; (212) 242-2388.

South Africa. Probably the most popular destination in Africa, because of its political stability and large variety of game. Not especially good for the Big Five. Daily rate \$300 to \$400. Contact Sporting International, Houston, Tex.; (713) 526-3161.

Namibia. Top ranch-style hunts. Present political instability poses only minor threat to hunters. Rate \$300 to \$400 a day. Two good operators are Charlie Ward and Jan Oelofse. Contact: Beverley Wunderlich, J/B Adventures and Safaris, Denver, Colo.; (303) 696-0291.

Botswana. Excellent hunting in the Okavango Swamps and Kalahari

Desert. Outstanding for lion and gemsbok, very good for buffalo. Offers classic tented safari à la Hemingway. Daily rate \$700 to \$750. Best organization is Safari South. Contact Sporting International, Houston, Tex.; (713) 526-3161.

Zambia. Totally wild areas, large number of species of trophy quality make for great hunting. Superb for leopard, buffalo, lion. Politically stable. Daily rate \$775; late-season packages available. Best operator: Zambia Safaris, Chicago, Ill.; contact Des Caine, (312) 382-4940.

Tanzania. Outstanding hunting, highest daily rate in Africa: \$800 to \$900. Best for lion, cape buffalo; wide range of antelope species. Contact: Sporting International, Houston, Tex.; (713) 526-3161. Another good operator is Gerard Pasanisi, 5 Avenue Raymond Feraud 06200, Nice, France.

Central African Republic. Severe poaching has wiped out once-excellent elephant hunting. Savannah species abound, including Lord Derby's eland, roan antelope, waterbuck, lion. Daily rate \$600. Contact Klineburger Worldwide Travel, Seattle, Wash.; (206) 329-1600.

The Sudan. Excellent hunting for over 40 species, both jungle and savannah. Daily rate \$650 to \$900, depending on terrain. Politically safe. Best operator Nile Safaris. Contact Sporting International, Houston, Tex.; (713) 526-3161.

Ethiopia. Open for hunting only one year. Trophy quality exceptional for most species. Reasonably priced at \$500 a day. Trophy fees lowest in Africa. Has species not available anywhere else: mountain nyala, Menelik's bush buck. Best operator Ethiopian Rift Valley Safaris. Contact A.N. Roussos, P.O. Box 3658, Addis Ababa, Ethiopia.

Zaire. Best elephant hunting anywhere. Physically demanding hunting because of severe humidity and heat in dense jungle. Daily rate \$700. Political situation stable. Contact Jerome Knap, Canada North Outfitting, Waterdown, Ont.; (416) 689-7925.

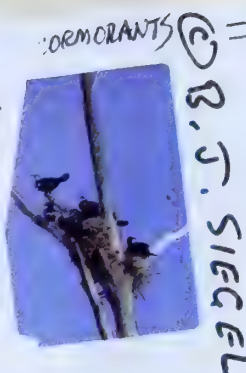
Cliff

50 CHEETAH & KILL
(GRANT'S GAZELLE)



CLAIRE SANDERS

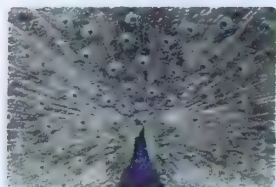
AMBOSELI, KENYA



ORMORANTS
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CLAIRE SANDERS



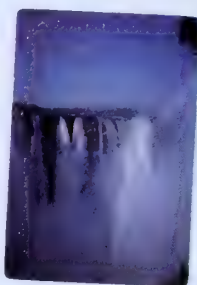
Peacock



SANDERS

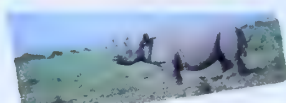
GIRAFE

Steve Sanders



Victoria Falls

5



RHINO

Steve Sanders



CLAIRE SANDERS

Lion & Cape Buffalo Kill

spotlight are a porcupine, a gray duiker and two bats, which are lying in the road together and fly away when Cliff bends to pick them up.

As we pull into camp Cliff tells us to meet at the lounge in 45 minutes. I go straight to my room, take off my shoes and climb under the covers with all my clothes still on. For the next half hour I can gradually feel the blood returning to my fingers and toes as I take my first good look at the room.

It's a bungalow, actually, round and covered by a thatched roof that rises to a point in the center. On one side of the room is a sturdy wooden wardrobe; on the other side are a small couch, a table and chairs. There is an air conditioner for the afternoons, a space heater for the evenings. There is no television and no telephone. To make a call you contact the registration desk. In the bathroom I am surprised to discover that the water pressure in the sink and shower is superior to what I've found in some of South Africa's finest hotels.

There are about 20 bungalows like mine on the premises; the camp can accommodate up to 50 guests. (The daily rate here is \$330 for double occupancy, \$255 single, which includes all meals, game drives, laundry ser-

vice and transfers to and from the local airport. Bar tabs are extra. Major credit cards accepted.)

The lounge where our group gathers before dinner is high-ceilinged and appointed with rattan furniture, animal skins and trophy mounts. Like the other rangers, Cliff brings us our drinks and then chats with us about the things we saw today. When someone observes that he pours wine as well as he knocks down saplings in the Land Rover, he explains that his training for the ranger job required a week in the kitchen, a week in the bar and a week in the repair shop. Dinner is served buffet-style in an alfresco reed enclosure under the stars, around a bonfire.

Early into the next day's morning drive we see three giraffes feeding on the thorns of an acacia tree. Cliff explains that they are able to do this because the insides of their mouths are extremely tough. He asks, "How many vertebrae do you think a giraffe has?" I bet he asks every group this question. After a moment or so of silence he gives us the answer: "They

have as many as we have."

We spot a tawny eagle in the topmost branches of a dead tree. In another tree is . . . what is that? . . . an earless, roundish creature. Cliff has never seen one before. He looks up its picture in a bird book he keeps on the front seat. "It's a barred owl," he says finally, and passes the book to the others. Later, as we drive along, Cliff stops and gets out to pick up a piece of trash lying next to the road.

Over the radio comes word that an elephant has been spotted at the other end of the reserve. It will take a while to get there, even if we hurry. Our professor has a plane to catch, so we can't be late in returning to camp. Mala Mala's elephants have been reclusive lately, and this may be our only chance to see one. "Let's give it a go," says Cliff, and we take off.

Minutes later, as we head into a dip in the road, Albert whistles and Cliff hits the brakes. We look into the trees on our right. Sixty feet away, a leopard crouches. Beyond it, and apparently unaware of it, are five or six impala. As we watch we are so quiet we can hear little noises the engine makes as it cools.

Suddenly the leopard leaps up and crashes through the bushes toward the impala. The impala take off on an angle toward the stretch of road beyond the dip. Their screams are a peculiar combination of screeching and clicking. When they charge into a patch of thick vegetation, the leopard catches up. As the first members of the herd emerge from the bush and dash across the road 30 yards in front of us—there are many more than we first saw—we hear growls and a heavy crashing in the bushes. Then it is quiet again.

Cliff starts the engine and says, "Let's have a look." After radioing our position to the other rangers he drives into the bush and slowly makes his way toward the area where the kill took place. Ten minutes later he comes out. "The leopard was on the kill," Cliff says. "He dragged it underneath a log. He ran off when he saw me."

"Will he be back?"

"Oh yes. He's just gone off for a little while. He won't leave his impala."

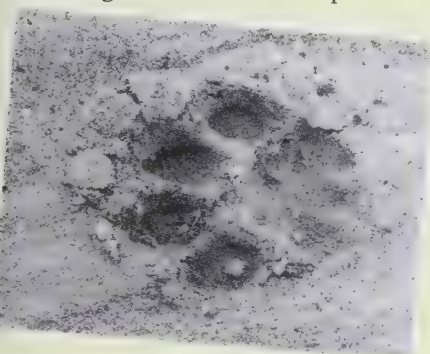
Later, as we pull into camp, Cliff says, "There we go. I couldn't show you everything this morning—we'd have nothing left to see this afternoon. We're going to find the elephant this afternoon."

However, on the afternoon drive there is no elephant. We hear on the radio that two leopards are at the

Personal Affairs

scene of the kill, but when we arrive they have already run off. The only excitement comes as we try to leave the site and the Land Rover gets caught on a log. The passengers get out and four of us free the vehicle by lifting its rear end.

This is the final game drive of my two-day visit, and I realize that I will probably leave Mala Mala having seen only four of the Big Five. But that gives me an incentive to come back to Africa again—to find an elephant.



Wild elephant's track

A note on photos: All used with this article were taken by amateurs who have recently been on safari.

That new tax law

The Tax Equity & Fiscal Responsibility Act of 1982 was supposed to be largely a tax increase for business, with some nuisance taxes for individuals thrown in. Baloney. Millions of taxpayers are going to scream when they compute their taxes for 1982, 1983 and beyond. For some, the new bill may well take away more than the tax cuts of a year earlier gave—especially middle- and upper-income earners.

The bill is sneaky. It doesn't so much take bigger bites out of your income—it increases your taxes by allowing you fewer deductions, by speeding up collections, by reducing pensions, by closing some loopholes and virtually daring taxpayers to be anything less than squeaky clean on their 1040s.

The chart on page 170 lists several major changes in the law and describes how they could affect you.



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Personal Affairs

And mark this: If you have a high five- or six-figure income, the new law will mean more than just a few more

bucks you'll have to pay the IRS. Your entire future lifestyle—i.e., retirement—may be affected.

One of the things that is so devastating about the bill is the sham it makes of "voluntary compliance." Such favorite taxpayer deductions as medical expenses and casualty losses have been severely cut—the IRS apparently assuming a whole lot of padding was going on here. Similarly, taking 10% of your dividend and interest

income up front is not very trusting, nor is the virtual elimination of non-registered bonds.

Probably most disappointing, however, is the slew of new penalties and provisions regarding "noncompliance." Indeed, the new bill seems to assume the taxpayer is guilty of cheating, and it puts the burden of proof that he is not on his shoulders. No wonder Congress was afraid of passing this bill.—W.G.F.

Some key provisions of the new tax bill

What's affected	How so	When	Result	Possible strategy
Medical deductions	Expenses have to exceed 5% of adjusted gross income (AGI) to be deductible from taxes (formerly 3%)	1983	Taxpayer with AGI of \$50,000 needs \$2,500 in expenses before any deduction	Shift medical payments to 1982 if possible
Casualty deductions	Expenses must exceed 10% of AGI before any deduction; formerly only had to exceed \$100	1983	Taxpayer with AGI of \$50,000 needs loss of over \$5,000 before any deduction	Possibly decrease deductible limits on casualty insurance policies
Alternative minimum tax, tax preference items	Add-on minimum tax repealed; alternative minimum tax increased; increase in tax preferences	1983	Higher rates for those paying alternative minimum tax (AMT)	If subject to AMT one year and regular tax the next, consider deferring deductions and speeding up ordinary income
Pension plans	Reduces benefits allowable. Maximum annual corporate pension cut to lesser of 100% of annual compensation or \$90,000. Old limit, \$136,425. Other changes for self-incorporated	1983	Pension payouts will shrink for some corporate and self-incorporated pension holders	Reconsider incorporating; there are fewer benefits to doing so
Loans on pensions	Limits amounts, conditions	8/14/82	Less favorable to borrow against pension	Consider loan on insurance
IRAs	Allows splitting of distribution—part can be rolled over, part retained	1983	Flexibility when taking any distribution	Consider IRA as source of capital
Dividends, interest	10% will be withheld	7/1/83	Cuts income, compounding	Consider tax-free investments
Annuities, pensions, bonuses	Income taxes will be withheld from taxable pension, profit-sharing, stock bonus or annuity plans	1983	Speeds up your payments to IRS	Can elect not to have tax withheld
Stock, bond portfolio	Regulations will be issued requiring brokers to report all gains and losses of customers	1983	Allows IRS to verify all sales are being reported	Won't take effect before Jan. 1
Bonds	All bonds will have to be registered; no more bearer bonds to be issued	1983	Harder to avoid paying taxes on bond interest	Consider tax-exempts
Cash payments	Anyone paying over \$600 to person or business for services must file a return similar to form 1099	1983	Creates paperwork; makes it harder for recipients to dodge taxes	Comply—penalties can be stiff
Tax underpayments	New penalty applies when underpayment of tax exceeds greater of 10% of tax liability required or \$5,000; penalty is 10% more	1983	Increases penalties for playing "audit roulette" and taking shaky deductions	Reconsider tax shelters

Source: Arthur Young & Co



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Faces Behind The Figures

Edited by Barbara Ettorre

"We were ready"

When Mario Nigro joined Merrill Lynch over 20 years ago as a computer programmer, average daily volume on the New York Stock Exchange was about 3 million shares and the Thundering Herd's portion was small. Today, Nigro, 45, is senior vice president in charge of Merrill's huge back-room operations, and he's handing out buttons boasting, "We were ready"—ready, that is, to have handled an average 13 million shares a day, Merrill's 12% portion of the Big Board's record-breaking 549.8 million-share volume in one week late last month.

Merrill's readiness was no accident, of course. Nigro recalls a Saturday in 1979 when Merrill staged a dress rehearsal at a cost of \$300,000—to drill the staff on what a Big Board 100 million-share day would be like. Right now, Nigro says his 5,800 person staff can easily handle a 150 million-NYSE-share day. Anything above that, he says, and some services that depend on massive computers installed at several locations in Manhattan and New Jersey would be temporarily curtailed, including computer responses to Merrill brokers' inquiries on customer accounts.



Merrill Lynch's Mario Nigro
200 million-share days? No problem.

What's next? By the end of the year, Merrill will install IBM's mighty 3081 computer system, at a cost of about \$6 million, to prepare for 200 million share days. Nigro feels that could happen by next year. He is thinking big. "Volume has been doubling every 5 years or so for the last 20 years, and I don't see any reason why that should stop," he says. "Anybody who guessed differently in the last two decades has been wrong."—Janet Bamford

Think sharp

Is there any man or woman over the age of 21 who has not used a single edge blade to scrape paint off windows, trim wallpaper or open sealed boxes? Gillette has figured out a way to get \$1.49 a shot for the habit, after introducing its gizmo, of course, for a mere 99 cents.

There was the momentous question of what to call the little devil—a small plastic rectangle with a blade at one end and five replacement blades at the other. "Gillette Single Edge Blade" was one suggestion ("How boring can you get?" was the in-house reaction), and it was shot down. The company finally settled on Widget.

One dictionary defines a widget as an "unnamed article considered for purposes of hypothetical example." Gillette was a bit pleased to discover that the name could be protected. There's an outfit in Atlanta that makes a Widget pool chlorinator, but Samuel Schell, who is president of Gillette's safety razor division, says "to our surprise, 'widget' wasn't trademarked in our category."



Gillette's Samuel Schell
What's in a name?

Gillette will spend \$3.5 million to promote and advertise its Widget in the first year. The name "widget" is so embedded in the language that Schell, 58, a Gillette veteran, is ready if others try to swipe it. "It's a brand name," he warns. "We have an aggressive trademark office, and we'll do what we have to to protect this one."—Janet Bamford

So, sue me

Boettcher & Co., the Denver-based securities firm, has been busily hiring a broker here and a broker there as part of an ambitious expansion program of opening six new offices from San Francisco to Anchorage in the last eight months. Along the way, Dan Herrington, Boettcher & Co.'s managing partner, has lured about two dozen top brokers from one competitor alone, Seattle-based Foster & Marshall, the recently acquired subsidiary of Shearson/American Express. Shearson is now so angered by Herrington's actions that it has just added a third lawsuit to two others it has filed against the firm—this one a \$10 million suit charging unfair trade practices and naming not only Boettcher but some of its brokers and their spouses as well. What is particularly bothersome about this latest suit is that the charge of unfair trade practices is not an issue that routinely is submitted for arbitration by the New York Stock Exchange. While the first two suits are stayed, pending arbitration, the latest suit may remain in court for years.

Herrington's reaction? He is glee-



Dan Herrington of Boettcher & Co.
Who needs up-front bonuses?

fully talking up the suit as "a modern-day version of David and Goliath." Against Shearson's equity capital of \$640 million, he is a David indeed. With current equity capital of \$13 million, Boettcher could be all but wiped out if \$10 million in damages were awarded.

Herrington, 43, has been successful in hiring brokers because, unlike some firms that dangle six-figure, up-front bonuses before likely prospects, Boettcher offers a piece of the action. Each year Boettcher, a partnership, pays 30% of its profits into a pool for "special partners" who have bought into the firm with modest capital. A newly hired broker, for example, can purchase a percentage or two (called "points") at around \$10,000 to \$15,000. In good years, he or she might receive a 100% return (before partnership taxes) on that capital, fueled largely by Boettcher's extensive municipal bond underwriting business. If a broker grows more productive, he or she can be invited to purchase an additional point or two—taking a larger cut of the pool in succeeding years.

Because of Boettcher's extensive outlays in 1982—the six new offices, a \$2 million Cessna Citation jet and an \$8 million investment in a new building adjoining its Denver headquarters—Herrington expects the return to Boettcher's special partners will likely be halved for a couple of years. But he thinks the needed expansion justifies reduced profits. "We've resolved to be the survivors out here in the West," he says.—John Merwin

Action! Camera! Lens!

Paramount's low-budget slasher film *Friday the 13th Part 3* in "super 3-D" was roundly thrashed by critics ("Trash," said *Newsweek*), but Gale Weaver couldn't care less. Weaver's company, Sirius II Corp., developed the projection lenses that allowed the stinker to be shown in 1,000 theaters, an unprecedented number for a 3-D film. In just ten days the film raked in \$19.5 million at the box office, reviving commercial interest in 3-D moviemaking itself, a technique that had bloomed, and, it had been thought, quickly died in the 1950s.

Weaver's tiny (1981 revenues, \$200,000) research and development company received almost \$1 million for manufacturing the lenses for *Friday*—and will become the beneficiary in a joint venture under negotiation with Paramount. Weaver, 40, a former R&D manufacturing engineer at Hughes Aircraft, landed the job for Sirius II while visiting *Friday's* set during filming. When he heard producer Frank Mancuso Jr.'s complaints of the limited distribution potential of 3-D films—because of complex projection lenses with a 30% failure rate—Weaver volunteered to develop a better lens and, in just 14 days, had a prototype that met Mancuso's criteria. The lens is simple to install, requiring little technical support from the studio, and is adaptable to almost all theater projectors.

How was Sirius II able to work so fast? Simple. The company, based in Marina del Rey, Calif., consists of only four employees—Weaver and



Sirius II's Gale Weaver
Through a lens, brightly.

Faces Behind the Figures

three ex-Hughes aircraft colleagues—all trained in electromechanical optics technology and product development. Founded three years ago with \$250,000 in rental income from a Weaver family resort in Oklahoma, Sirius II—named for the Dog Star, the brightest star in the heavens—has done consulting work for the aerospace industry.

Now, Weaver and company, seeing opportunities in the movie industry, have begun several projects at Sirius II, including a camera that films 3-D or flat pictures on 70mm film, a computer software system that allows a movie director to manage production schedules and an unmanned, fully programmable overhead camera. "The film industry doesn't have an internal R&D process," he says. "It's done on a picture-by-picture basis, which has become cost-prohibitive." Clearly, Weaver thinks he can become a star.—Roger Neal

The engine plant that wouldn't

"People just don't give a dang. You give a person a \$20 bill, and he throws it back and says, 'It's dirty, I want a new one.'" These are the disheartened thoughts of James (Jim) Martin McCracken, president of UAW Local 1250 at the Ford Motor Co. Cleveland engine and casting complex.

McCracken has good reason to be discouraged. The three-plant complex once employed 13,000 and is down to 7,200 UAW members. This spring Ford offered to put a new V-6 engine in the plant for its 1986 models—assuring an additional 800 to 1,000 jobs—if the workers accepted some work-practice concessions. Vote yes, McCracken urged. Two-to-one, the workers voted no, and Ford decided to put the engine in its Lima, Ohio plant.

McCracken is particularly concerned because, he says, the six-cylinder engine might eventually replace Ford's 302 engine, a V-8 built at the Cleveland plant. "We needed that engine," he says. "If we don't get something else, we'll be way down."

Why did his members turn down the deal? McCracken says the major concessions Ford had asked for were aimed at more orderly job transfers in



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Faces Behind the Figures

case of layoffs. He notes that Ford's UAW workers had already voted concessions in the national contract negotiated last spring that concerned a wage freeze and giving up of some paid days off. "They wanted no more concessions, period," McCracken grouches in his native West Virginian drawl. His rank and file, he suspects, had thought that Ford would put the engine in Cleveland anyway.

Others familiar with the Cleveland situation say that Ford did a less than terrific job in explaining the changes it wanted, that workers in the casting plant and the one engine plant in the complex still running strong did not want to give up anything for jobs to be put in the almost empty second engine plant and that the casting plant workers were particularly twitchy about any change in transfer rights.



James (Jim) Martin McCracken, president of UAW Local 1250
Thumbs down from the rank and file.

Nevertheless, McCracken, 53 years old and a 29-year auto industry veteran, praises the work of the Cleveland crew ("There's not a better work force in the Ford Motor Co.") and brags about the Ford cars in his own family: a 1981 Lincoln, a 1967 Ford convertible and a 1978 LTD. But he notes sadly, "The people here felt they were up against a wall and didn't want to

—Jerry Elser

Pressing the price

Back in 1973, when "nautilus" meant seashells or the first nuclear submarine, Sean Harrington glimpsed the potential mass appeal of the body-building equipment designed by crusty former big game hunter Arthur Jones (*FORBES*, Oct. 16, 1978), using shell-shaped cams to produce a variable resistance workout. Harrington, a former football star with two fine arts degrees from Yale, built southern California's first chain of high-volume, low-investment Nautilus fitness centers into a \$3.5 million, five-club operation. Jones supplied equipment to Harrington and his imitators. From \$20 million in 1978, revenues of Jones' privately held Nautilus Sports/Medical Industries have risen to about \$300 million.

Along the way, Harrington helped hatch a monster. With Jones' trademark on as many as 1,500 centers nationwide, competitors have engaged in frantic price wars, peaking this summer in Los Angeles, with a spate of \$99-for-two-years offers. "You can get away with that in the summer," says Harrington, "but sometime in October, the people



TECH Fitness Centers' Sean Harrington
More is less.

He has started TECH Fitness Centers—two so far, six to open by the end of the year. It is a chain of low-volume (2,500 members, compared with the more than 10,000 at a mass-appeal Nautilus center), high-priced (annual memberships as high as \$690) clubs. The high fees will not be justified by fancy pools or plush bars. The clubs will have neither. Instead, Harrington will rely on personal service so intense that members who fail to show up for two weeks will get a polite inquiry call.

To finance his venture, Harrington cashed out of the Nautilus operation to 11 co-investors more than 18 months ago. He won't say how much he received for his 20% share, but he says he is spending \$500,000 to outfit each new center, expecting annual revenues of around \$1.37 million on each, assuming a membership of 2,500. He also is marketing Heart Mate, a Harrington-designed exercise cycle combining electronic monitoring capacity with built-in stereo-TV entertainment. Orders to date (\$4,000 per unit at retail, about \$2,500 for health clubs) total \$500,000, and Harrington says first full-year sales could reach \$6 million.

Meanwhile, his two pilot clubs in California use almost no advertising, but they report a phenomenal 90% enrollment coming from referrals. Harrington is all smiles: "Everyone who joins a crowded \$99 club becomes just another future customer for us."—Michael Cieply

who've joined in July will start coming back to use those clubs." Long lines, he says, discourage new sign-ups, which provide the bulk of cash flow for most centers. Harrington thinks the Nautilus boom he helped start will go bust, the shakeout coming within a year.

So, Harrington, 39, has broken with his old formula and has begun a new fitness operation, which might strike casual observers as a truly dumb idea.

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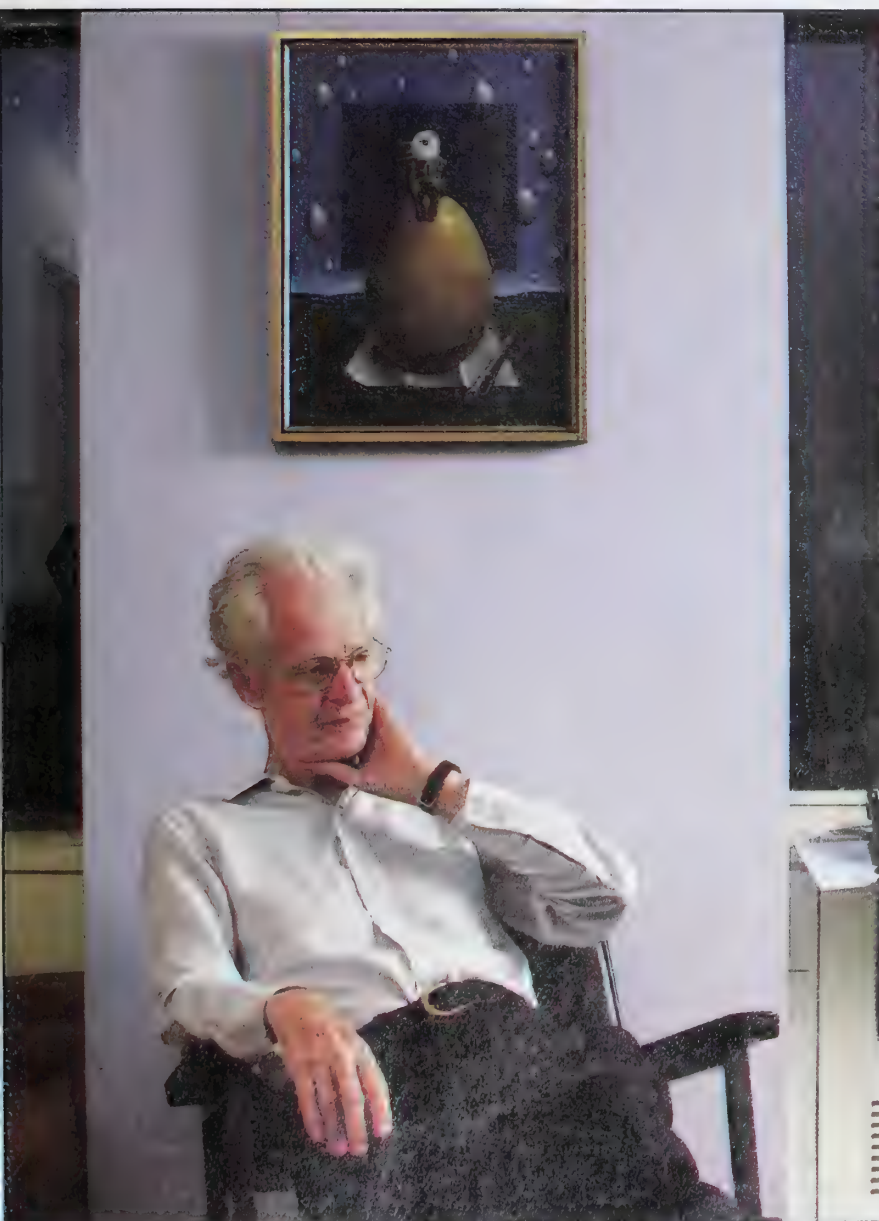
From the client's point of view.



Experts from Advanced Environmental Technology Corp. of Morris Plains, New Jersey, cleaning up improperly handled hazardous wastes

The onset of old age was once something people feared. But the guarantee of a longer, healthier life may make old age at least as fulfilling as any other time of life.

The real secret of Ponce de Leon



Behavioral psychologist B.F. Skinner in his Harvard office
"Learn to harvest your thoughts when they're ready to be harvested."

Technology

Edited by Stephen Kindel

WHEN LEGENDARY behaviorist B.F. Skinner mounted the podium at the American Psychological Association's annual meeting in Washington last month, it wasn't to report the results of some new experiment with rats or pigeons. Rather, the white-haired, 78-year-old Skinner, who has survived bouts with cancer and angina, was presenting a case study on changing behavior in old age: his own. "Old age is like fatigue," he told his much younger audience, "except that its effects cannot be corrected by relaxing or taking a vacation."

Despite that fatigue, though, Skinner has managed to lead a rich, full intellectual life since his retirement from Harvard University eight years ago. In order to minimize the inroads of old age he has developed a series of tactics to overcome the forgetfulness that comes with aging: He puts his umbrella on the doorknob when he hears a weather report of rain, and has switched from French literature to detective fiction, where the thrills are more visceral and quicker to appear. To keep his mental faculties sharp he has deliberately broadened his intellectual base instead of narrowing it. At the American Psychological Association meeting, he delivered another address entitled "Why are we not acting to save the world?" It drew enthusiastic applause from the assembled psychologists. Skinner's speeches highlighted what many social scientists have been observing for almost a decade: Those things we commonly associate with aging—the need to retire, the need for chronic medical treatment and nursing homes, senility—are all yielding to improved medical care. The increasing percentage of older people in the population is bringing about further changes. Consider some that have taken place just in the last decade:

- Life expectancy at birth has increased three years, from 70 to 73. Even more important, the life expectancy for Americans over 30 years old is now the highest in the world, 77. Scientists expect life expectancy to approach its theoretical maximum (see chart, p. 182), 85, well within the lifetime of children now being born.

- Retirement has been pushed back from a mandatory age 65 to age 70 in many industries, and eliminated entirely in the federal government

• Deaths from heart disease, and pneumonia and influenza, leading causes of death in old age, have dropped 22% and 47%.

• Two of the major debilitating diseases of old age, ulcers and angina, are rapidly being brought under control with new drug therapies like Tagamet and Cardizem that not only eliminate surgery but reduce the side effects associated with drugs used in treating chronic diseases.

• In the process of switching to new drug therapies, many of the symptoms associated with senility are now recognized as drug-related.

Changes like these have created an entirely new generation of old people, a sizable population that Bernice L. Neugarten of Northwestern University's School of Education tags "young-old," to distinguish it from "old-old," that group still suffering from all the traditional problems associated with aging. "Society," she says, "is becoming accustomed to the 70-year-old student, the 50-year-old retiree, the 65-year-old father of a preschooler and even the 85-year-old mother caring for her 65-year-old son. Age norms are diminishing in importance, and we are creating a society in which age is rapidly losing its relevance."

Just how rapidly things are changing for old people can be seen in some startling projections made by noted labor economist Seymour L. Wolfbein. According to a recently published study, "Planning for the U.S. Labor Force of the '80s," the next decade will see a steady aging of the U.S. work force. The birth rate will continue to fall, resulting in a substantial labor shortage by 1990. Given the improving skill level of younger workers, the chances are good that the person serving you your Big Mac at the end of the decade will be gray-haired.

Such changes are already taking place in other industrialized nations, notably Japan and Sweden, where the over-65 component of the population is now at the point that the U.S. will reach by 1990. Sweden recently changed its retirement laws to encourage older workers to "taper off" instead of abruptly retiring. Aside from saving the Swedish social security system millions of dollars in bene-

fits, the tapering off program allows workers to develop new interests and skills at a measured pace. In Japan, those workers on lifetime employment often begin entirely new careers after retirement, both because Japanese culture has a built-in reverence for the experience that age provides, and because retirement provides only a very modest income, which must be supplemented in some form.

If more people are to live to enjoy a healthy old age in the coming years, the social structures that support the aged will have to change quite a bit. "The major change that has to take place in developing programs for the old is to shift them away from being age-based to need-based programs,"

between the young-old and the old-old. Writing in *The New England Journal of Medicine*, Dr. James F. Fries, an expert on aging, cautiously describes the problem: "The social consequences [of healthy old age] will be profound. Death and disability, occurring later, will become increasingly unavoidable. Medical intervention in the patient without organ reserve will be recognized as futile. The principle [of death from old age rather than disease] carries profound implications." What he means is that society will have to reconsider how much to spend on the long-term chronic care of the elderly, and how much to spend on helping those who still maintain some semblance of health and vigor.

In an era of budget pruning, there will probably not be enough money with which to serve both groups adequately.

Fortunately, improvements in health care may eliminate much of the need for costly long-term chronic care. A wholesale change in the way Americans eat and exercise, and a decline in tobacco consumption, have led to a dramatic decline in deaths from arteriosclerosis, particularly cerebrovascular disease. A leading related disease, hypertension—high blood pressure—is now also being brought under control through the use of a group of drugs commonly referred to as beta blockers. These, along with calcium-entry blockers, increase the heart's blood supply by reducing the spontaneous constriction of cardiac

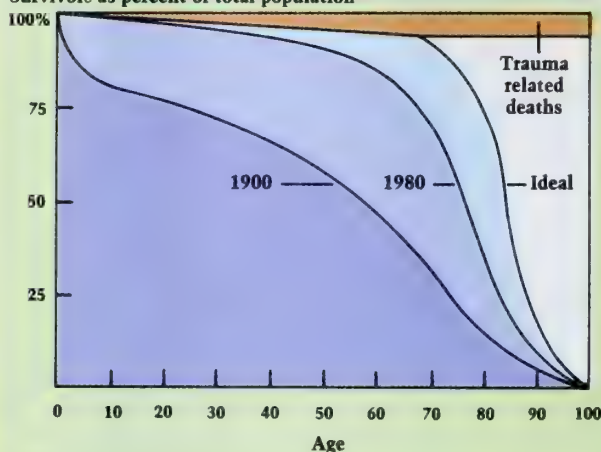
and arterial muscle cells. In addition to hypertension, these drugs can also be used in the treatment of angina—the intensely suffocating pain that results when muscles around the heart suddenly contract—and cardiac arrhythmia, irregular heartbeat that is thought to be related to sudden cardiac death, still the largest single cause of death in the U.S.

Besides the treatment of heart disease and hypertension, another drug therapy, the use of moduretics, is contributing to an increase in general health for old people. Moduretics assist the body in purging itself of excess sodium while leaving potassium, vital for cell metabolism, untouched. In contrast, older, more widely used diuretics leached both sodium and po-

The best is yet to come

Since 1900, the disappearance of infectious disease has brought life span closer to its theoretical maximum, 85 years. As chronic disease also declines, in the wake of improved medical care, there is every chance that people will lead healthy, active lives until the day they die.

Survivors as percent of total population



Source: James F. Fries, M.D.

says Neugarten. "The number of persons over 65 who now fall under the poverty line is not much different from the number of young people under the poverty line."

That's not to say that all old people are living in the lap of luxury, by any means. But what Neugarten and others emphasize is that social spending must take into account the changing lifestyles of the old, especially the young-old. "This is a group of people who are healthy and vigorous retirees, and their needs for housing, education and social services are tremendous. Many will not want to move to age-segregated communities, retirement villages and the like."

This, some experts think, might cause an intragenerational conflict

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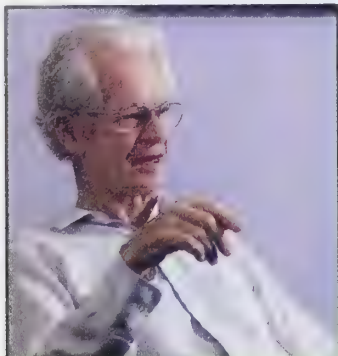
tassium from the human body, causing extreme weakness and impaired mental capacity—exactly the same symptoms often diagnosed as senility. "True senility is actually very rare among people in their sixties and seventies," says Neugarten. "A lot of what is called senility is traceable to overmedication, particularly in some nursing homes, and to side effects of treating hypertension, diabetes and

other illnesses where diuretics are used. All of these [drug-induced senility] states can be alleviated, often even reversed."

With the terrors of senility less of a threat, older people can look forward to relatively active, if somewhat more restricted, lives. How that activity is managed, though, is still a major question. For someone of, say, Skinner's intellectual attainments, a diminished capacity for physical activity means giving up some hard-won achievements. "I used to play the piano quite well," he says. "Bach, Mozart. Then I developed glaucoma in my left eye and had to give up playing because I couldn't see as well. Now I

listen to the same music. It's not the same kind of enjoyment, but the pleasure of the music overcomes the loss of not being able to play it."

In particular, Skinner advocates eutropelia—the productive use of leisure—to extend capacities in old age. "After a good day of work, you get tired. And you have to learn to recognize that fatigue. Doing the *Times* crossword puzzle after a hard day's work is foolish. Watching Archie Bunker is not. That's what I do. You have to discover the things you still do well, create a situation in which you can do them well, and you will. That's the art of life in general, but it's particularly important for old age."



B.F. Skinner

A Skinner box

Following his address before the American Psychological Association, *FORBES* asked B.F. Skinner to expand on his thoughts on the dilemmas of age. While cautioning that he is not an authority on the subject ("Psychologists are always being asked questions about

You have to design, for yourself, a world in which you get solid positive reinforcement.

What do you recommend?

Skinner: You should read on a level that sustains your interest. I used to read in French, but I now feel more fatigued when I read, so I read in English. And instead of Balzac, I read mysteries. They're like comic books, in that they provide stimulation on every page. The problem with good literature is that there is a variable ratio payoff. You read for a longer time before something interesting happens.

Is age segregation good for people?

Skinner: No, I think it's terrible. I think going off to Florida and seeing people only your own age where the main topic of conversation is who died since I last saw you, who is your doctor, that sort of thing, makes you lose contact with life entirely. That's the kind of behavior that people fall into when their old behavior no longer works.

What about loss of memory?

Skinner: You have to learn to harvest your thoughts when they're ready to be harvested. If you're starting to become forgetful, carry around a small notebook or a pocket tape recorder. But more important than those kinds of tricks is that you have to decide where to cut back, and where to expand. Often, you find yourself in the position of saying things you've already said. One of the more disheartening experiences of old age is discovering a point you have made—so significant, so beautifully expressed—was made by you in something you published a long time ago.

But you can have new thoughts. You can broaden your horizons. Right now I'm writing a book on epistemology and another on larger ethical questions, why we aren't acting to save the world.

But what about the rest of us, who don't operate on such a high plane?

Skinner: I talked before about cutting back on activities that operate on a variable ratio schedule. But some, like gambling, should be increased. Playing bingo or poker really isn't so bad if you don't lose too much. With a scientist or a creative artist, though, it isn't so necessary, because work provides its own variable ratio schedule. You never know when the next good idea is going to come, but they've come often enough so that you keep at it.—S.K.

things in which they have no expertise"), he agreed to discuss his strategies for managing old age:

Skinner: There is the question of how much you can do without wearing yourself out. That goes down with the years. I could sustain an eight-hour day intellectually when I was, say, in my 50s. Now it would wear me out. Old age fatigue, though, doesn't mean you get physically tired. It's mentally tired. It's what happens when something you're doing no longer pays off.

Should you taper off in your work before fatigue becomes too pronounced?

Skinner: Unless you've had a stroke or some serious illness, there's no particular point when there's an onset of fatigue. You just have to be alert for it all along the way, and then taper off your activities. The main thing is the question of reinforcement, which happens to be my specialty. You do something and then consequences happen. And as a result, you're more likely to do that kind of thing again. What you have to constantly find is behavior that pays off.

For example?

Skinner: Well, one kind of behavior that usually doesn't pay off is moving to another city. Old people, when they retire, they just pack up and move. And then in the new city they can't go to the theater they used to go to or the shopping center, or they can't visit their friends. They've developed a whole repertoire of behavior that works in one city that no longer works in the new city. Almost inevitably, they get depressed about it. The same thing goes for the things old people used to enjoy. Food doesn't taste as good, their hearing is diminished so that it's harder to enjoy music, they've lost good friends, sex isn't as stimulating, the businessman no longer has his colleagues to talk to. All of those kinds of behavior that once were very effective no longer pay off.

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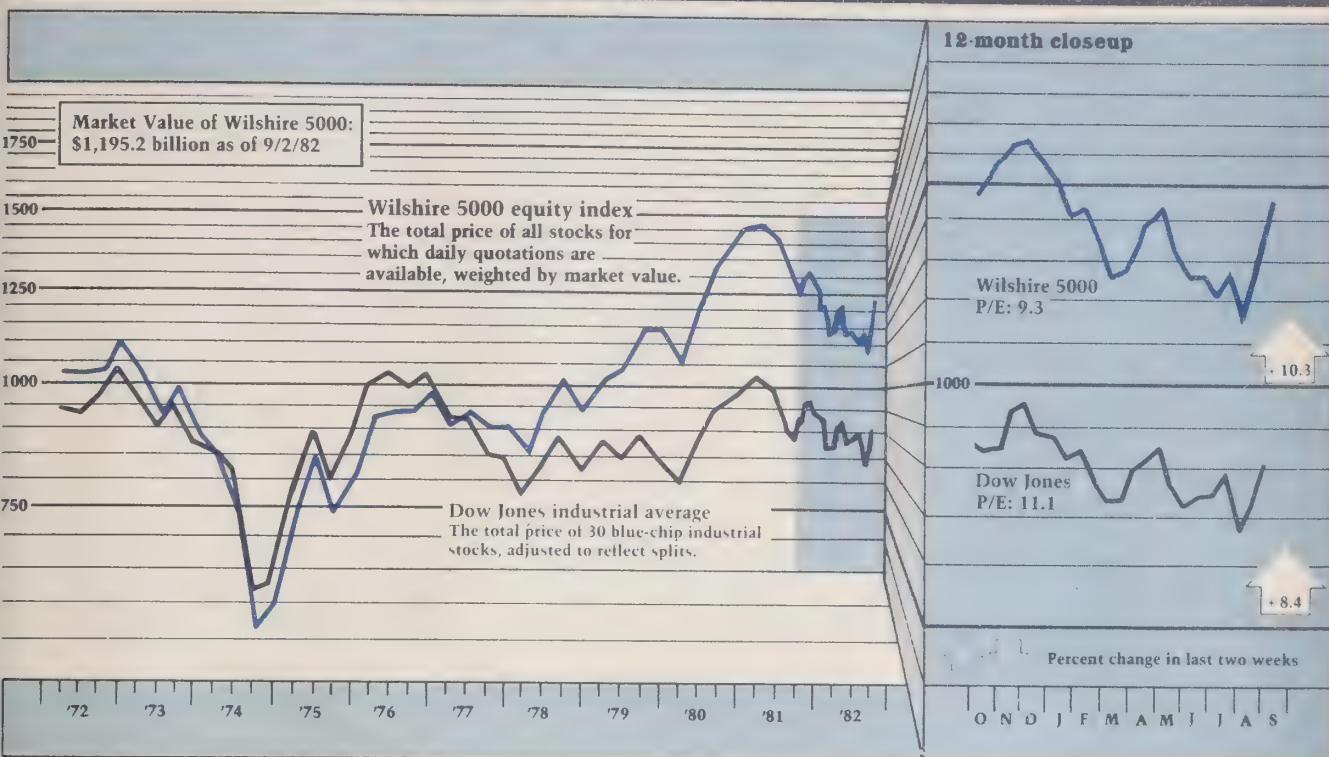
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The First Boston Corporation

August 24, 1982

The Forbes/Wilshire 5000 Review



Waiting for the wild card. This rally is the result of a headfirst plunge into blue chip securities by foreign and institutional investors. Individual investors are largely still on the sidelines. Over the last week money market fund assets decreased by only \$899 million, while the Wilshire index shows that total market capitalization jumped by almost \$100 billion over the last two weeks. What next? Fear of missing the rally may coax more investors into the market. Then again, Wall Street may suddenly lose its euphoria because of sluggish economic performance.

Interest in blue chips, meanwhile, remains strong. The 30-stock Dow is a limited shopping list, and during this rally it has scored handsome gains. Thus the movement into other quality areas of the market. While the Dow continued its strong momentum and gained 8.4% during the last two weeks, it lagged the broader NYSE and Forbes 500 indexes. Each of these was up more than 10%. Another encouraging sign is the even stronger performance of the Amex, which gained 13.2%. NASDAQ issues moved up in line with the Dow—an indication that quality rather than speculation is motivating investors.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ¹	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	13.6	14.3	14.3	14.1	13.6	8.7
in last 52 weeks	-3.7	NA	4.9	-1.8	-16.7	-6.5

Stock performance based on five key investor yardsticks

Percent change	Volatility ²		P/E multiple		Dividend yield		Growth profile ³		Share price	
		low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	13.0	5.5	10.3	10.4	7.7	9.4	12.4	8.2	12.8	7.1
in last 52 weeks	3.2	8.3	-11.7	11.7	9.0	8.5	3.9	7.8	-1.9	-2.7

NA Not available

¹Based on sales

²A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.

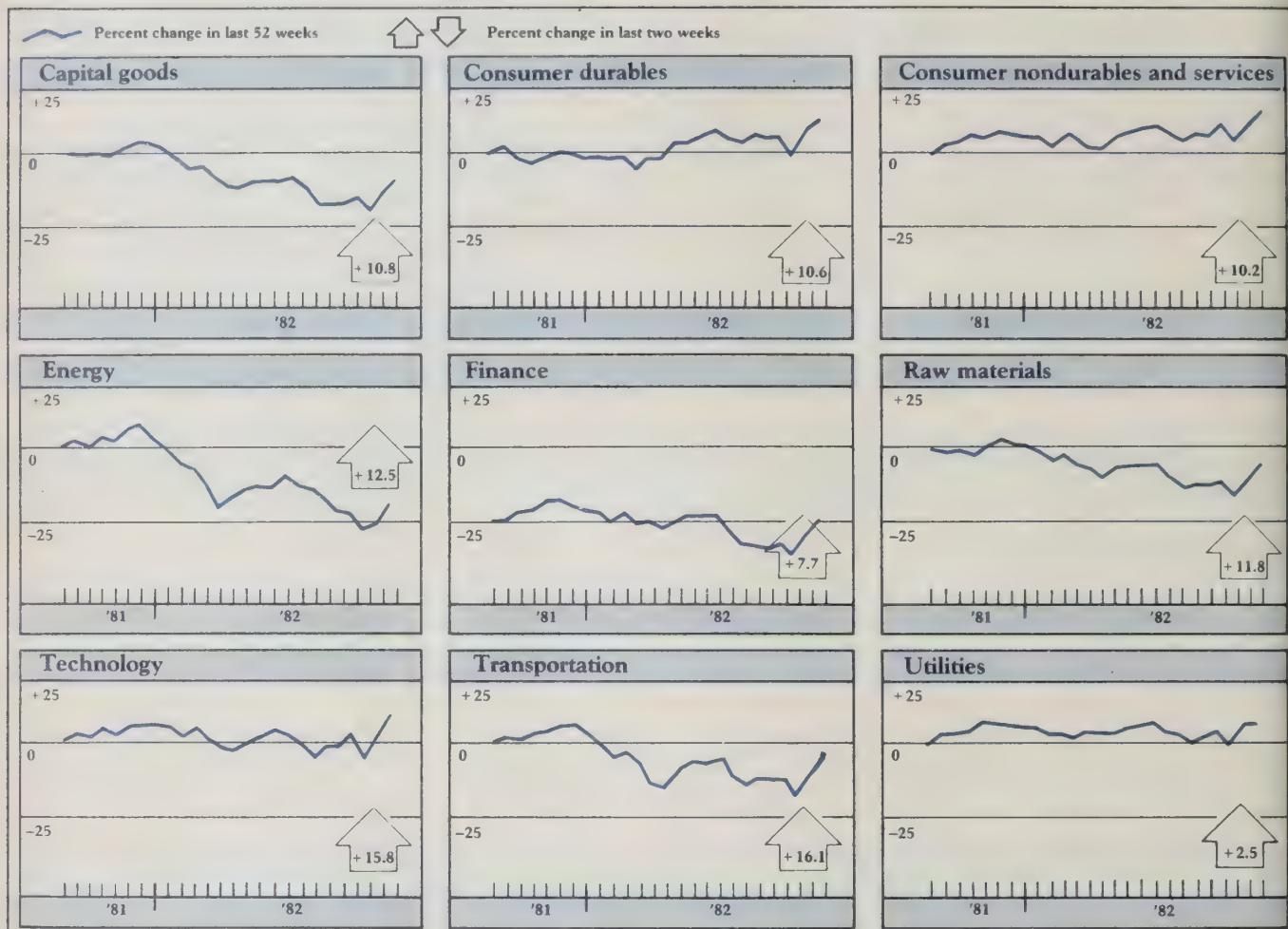
³A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 9/2/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

On the offensive. Wall Street has finally lost its fascination with defensive stocks. With a slim 2.5% two-week gain, utilities were the weakest sector. Investors, it seems, now see better opportunities in other areas—despite the enhanced attractiveness of utilities' double-digit yields in an environment of declining interest rates.

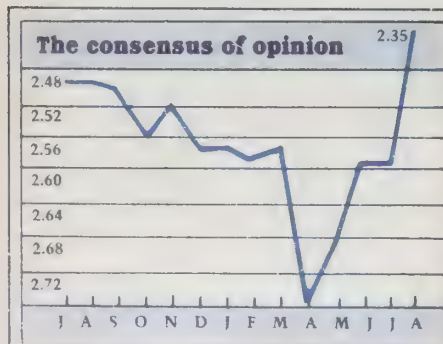
Transportation issues, meanwhile, gained more than 16%, with a number of trucking companies, railroads and airlines hitting 52-week highs. Technology stocks, spurred by a more than 3-point one-week gain in IBM, were ahead by 15.8%. And energy stocks restored some of their 52-week losses with a 12.5% advance.



What The Analysts Think

Looking for Mr. Consumer. Over the last two weeks analysts moved consumer nondurable issues all the way from seventh to first place in their ranking of buy recom-

mendations. Meanwhile utilities dropped from first to fourth. Given the enormous jump in Wall Street volume, the finance sector moved up smartly, too.



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Consumer non-durable	2.08	2.69	2.69
2	Finance	2.27	2.65	2.66
3	Technology	2.34	2.40	2.40
4	Utilities	2.35	2.36	2.44
5	Energy	2.40	2.53	2.63
6	Capital Goods	2.47	2.49	2.50
7	Transportation	2.65	2.67	2.76
8	Raw materials	2.66	2.75	2.76
9	Consumer durables	2.69	2.70	2.69

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite

rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 9/2/82. Prepared by Wilshire Associates, Santa Monica, Calif

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Statistical Spotlight

Some cyclical stocks are already moving up in the current rally. But others are not. Here's a list of the current laggards.

Smokestacks on the sidelines

**By Steve Kichen
and Paul Bornstein**

IT'S REGULARLY BOOM or bust for both profits and share prices of cyclical companies. That's largely why there isn't much glamour in basic businesses like steelmaking, construction, machinery and paper products. But now that Wall Streeters sniff economic recovery in the air, sharp-eyed and venturesome investors spy the potential for substantial gains in boring smokestack industries.

Consider this: In 1975 when the S&P's 500 recovered 31.5% from the 1974 economic setback, S&P's autoparts index jumped 75.8%, while paper companies and chemical companies advanced 56.1% and 47.1%, respectively. The depth of the current recession presents similar opportunities. For instance, John Henry, chemical analyst at E.F. Hutton, says, "The prices of fertilizer stocks already reflect the problems of grain surplus and high interest rates. But they don't reflect the potential turnaround." Henry

in recent weeks put buy recommendations on many fertilizer and chemical companies.

When the market caught fire in August, in fact, many of the cyclicals missed out on the excitement. To get a closer look at these laggards, we asked William O'Neil & Co. to run some special screens on its computers. For starters, we wanted only those industrial firms with what statisticians term a "relative strength" of 45% or less. That means these stocks were well down in the weaker half of

Steel

Foreign competition, overcapacity, high labor and regulatory costs and weakened balanced sheets make most of these steelmakers long shots for a dynamic post-

recession comeback. These issues are largely at the bottom of their five-year price ranges, and in addition several sell at steep discounts from book value.

Company	Recent price	5-year price range	5-year earning range		5-year return on equity	Debt/equity	Book value per share	EPS est 1983
Armco	16 1/4	41 3/4-15 1/4	\$ 4.97	\$ 2.53	12%	28%	\$ 39.60	\$2.05
Athlone Inds	17 1/4	30 -13	5.16	1.14	16	124	23.52	NA
Bethlehem Steel	18 3/8	32 -14 1/2	6.31	-10.27	6	35	63.26	2.25
Carpenter Technology	32 1/2	53 -20 1/2	5.20	3.85	17	2	32.29	NA
Copperweld	16	31 3/4-10 1/2	4.34	1.34	12	35	18.93	2.25
Eastmet Corp	4 3/8	16 1/8- 3 1/4	2.27	-2.65	7	75	15.46	NA
LB Foster	6 1/8	18 - 3 1/2*	2.80	1.16	27	173	4.14	NA
Interlake	27 1/8	45 -21 1/8	7.59	1.77	9	35	57.45	7.00
Kaiser Steel	19 1/4	50 3/4-13 3/4	12.84	-2.40	13	93	36.10	NA
Laclede Steel	7 3/8	18 1/2- 7 1/8	2.45	-3.87	2	38	28.39	NA
LTV	10 1/2	26 1/8- 5 1/8	7.97	-5.03	18	101	26.31	4.35
Lukens	10 1/2	19 - 8 3/4	2.48	0.90	6	21	27.37	1.60
National Steel	17 1/2	35 3/4-13 7/8	6.56	0.11	5	45	79.88	2.05
NVF	1 3/8	7 - 1	0.59	0.01	10	265	2.84	NA
Phoenix Steel	1 1/2	5 1/4- 1 1/8	0.18	-2.22	64	NM	0.47	0.15
Quanex	8 1/4	29 1/2- 5 7/8	3.05	0.85	21	31	12.18	1.20
Republic Steel	17 1/4	32 1/8-15 1/4	8.48	2.54	7	36	102.64	3.00
Sharon Steel	2 3/8	10 3/8- 1 1/8	0.71	-0.03	7	240	2.71	NA
US Steel	20 1/4	35 1/4-16	7.57	-4.46	5	35	70.18	3.15
Valley Inds	5 1/4	16 - 4 1/8	1.65	0.32	12	40	7.84	0.85

*Price range for less than five years. NA: Not available. NM: Not meaningful

Source: William O'Neil & Co.

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JAPANESE YEN - INTERNATIONAL		MONETARY MARKET		LOW	TIME
LAST	CHANGE	PREV1	PREV2	HIGH	CLOSE
4548	-	4547	4547	4559	4547 CLOSE
4558	+	4558	4543	4558	4555 CLOSE
4538	-	4538	---	4545	4537 CLOSE
4550	-	4550	---	4555	4550 CLOSE
4557	+	4560	---	4560	4557 CLOSE
4552	-	4560	---	4552	4552 CLOSE
BARCLAYS BANK INTERNATIONAL		LON 283-0909 TX		887841	1209
SPOT	1 MTH	2 MTHS	3 MTHS	6 MTHS	12 MTHS
2.3752/62	158/153	260/255	358/353	517/512	750/735
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OMNI
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Statistical Spotlight

the market in overall performance over the past 12 months. Since we were also interested in stocks that are undervalued relative to their five-year price-to-earnings multiple, we eliminated all issues selling at more than 3 times their lowest earnings multiple over the past five years.

Some companies—like steelmakers Quanex and Armco—showed up on our screen of cyclical stocks even though they had achieved five straight years of earnings growth. We included them in our table only if the earnings estimate for the next fiscal year indicates a decline. Our logic: Perhaps such firms really haven't avoided the recession; they have just managed to look resilient for a longer

period of time.

The result of our efforts is a list of cyclical companies that Wall Street is ignoring. Investors have no overwhelming confidence in the ability of these companies to make a comeback in the near future. Our list, of course, would have been larger were it not for the recent market surge. Thanks to the rekindled interest in such well-known names as General Motors,

Equipment and parts

The fortunes of most of these companies are tied to the health of autos, construction and agriculture. Earnings estimates indicate that 1983 is likely to be a lean year,

but it could change if broader economic conditions improve. The more troubled firms in this group are selling at steep discounts from book value.

Company	Recent price	5-year price range	5-year earning range		5-year return on equity	Debt/equity	Book value per share	EPS est 1983
American Hoist & Derrick	11 $\frac{7}{8}$	26 $\frac{1}{2}$ –8 $\frac{3}{4}$	\$3.60	\$2.57	11%	48%	\$31.67	\$1.40
Bucyrus-Erie	13	27 $\frac{1}{2}$ –10 $\frac{1}{4}$	2.75	1.84	13	44	19.69	1.60
Caterpillar Tractor	38 $\frac{3}{8}$	73 $\frac{1}{4}$ –34 $\frac{1}{2}$	6.64	5.16	17	25	43.84	3.20
CCI Corp	10	17 $\frac{1}{4}$ –4 $\frac{3}{4}$	3.05	1.18	19	53	14.58	NA
Cross & Trecker	15 $\frac{3}{4}$	41 $\frac{3}{4}$ –5 $\frac{3}{4}$	3.32	0.81	21	7	15.16	0.80
Fruehauf	16 $\frac{7}{8}$	40–15 $\frac{1}{4}$	7.28	1.74	10	79	42.27	2.55
Harnischfeger	7 $\frac{1}{4}$	26–6 $\frac{1}{4}$	2.93	–0.13	7	48	23.16	0.05
International Harvester	4 $\frac{5}{8}$	45 $\frac{1}{2}$ –2 $\frac{3}{4}$	12.01	–12.49	NM	134	45.88	NA
Kennametal	26	42 $\frac{1}{4}$ –13	3.06	1.89	18	17	17.49	3.00
AO Smith	8 $\frac{3}{4}$	24 $\frac{7}{8}$ –7 $\frac{3}{8}$	6.01	–0.36	6	46	43.07	1.25
Stanadyne	26 $\frac{3}{4}$	46 $\frac{1}{4}$ –19 $\frac{1}{4}$	5.27	2.80	16	19	29.56	5.75

NA: Not available NM: Not meaningful.

Source: William O'Neil & Co.

Chemicals

These five diversified chemical and fertilizer firms could benefit from a weaker dollar and stronger domestic and foreign economies. But until there are clearer

signs that business is about to improve, the companies should continue to trade at the lower end of their five-year ranges—which still leaves room for price gains.

Company	Recent price	5-year price range	5-year earning range		5-year return on equity	Debt/equity	Book value per share	EPS est 1983
Baker Inds	4 $\frac{7}{8}$	25–2 $\frac{7}{8}$	\$3.16	\$–2.66	8%	43%	\$10.12	NA
First Mississippi	7 $\frac{7}{8}$	30 $\frac{3}{8}$ –3 $\frac{1}{4}$	1.63	0.20	16	38	6.85	NA
Intl Minerals & Chemical	28 $\frac{1}{8}$	66 $\frac{1}{2}$ –22 $\frac{3}{4}$	5.63	4.41	16	50	36.96	NA
Univar	15 $\frac{3}{4}$	35–6 $\frac{3}{4}$	3.21	1.20	17	85	17.34	NA
Williams Cos	15 $\frac{1}{8}$	49 $\frac{7}{8}$ –12 $\frac{5}{8}$	5.07	0.40	10	65	34.51	\$2.20

NA: Not available

Source: William O'Neil & Co.

Paper and packaging

Weak demand, both domestic and foreign, is hurting these paper and package makers. Improvement in the overall economy would obviously help, and that's why

many analysts expect better earnings in 1983. Nevertheless, next year's earnings for most of these companies aren't expected to top their five-year peaks.

Company	Recent price	5-year price range	5-year earning range		5-year return on equity	Debt/equity	Book value per share	EPS est 1983
Chesapeake Corp of VA	22 $\frac{3}{8}$	39 $\frac{7}{8}$ –12 $\frac{5}{8}$	\$4.22	\$1.44	15%	41%	\$26.29	\$2.80
Crown Zellerbach	18 $\frac{3}{8}$	62 $\frac{3}{4}$ –15 $\frac{1}{4}$	5.24	2.47	9	51	45.51	2.60
Federal Paper Board	20 $\frac{5}{8}$	39 $\frac{1}{4}$ –12 $\frac{1}{2}$	4.61	0.99	14	187	26.76	4.45
PH Glatfelter	24 $\frac{1}{2}$	36 $\frac{1}{2}$ –17 $\frac{1}{2}$	5.15	3.25	15	4	33.56	5.00
Hammermill Paper	24 $\frac{1}{2}$	35 $\frac{3}{4}$ –16 $\frac{1}{4}$	5.57	2.51	12	66	45.61	5.05
Longview Fibre	18 $\frac{1}{2}$	40–14 $\frac{1}{2}$	3.36	0.11	10	67	15.12	1.10
Mead Corp	16 $\frac{1}{4}$	33 $\frac{7}{8}$ –13 $\frac{1}{2}$	5.42	4.00	15	83	33.83	3.05
St Regis Paper	21 $\frac{1}{8}$	42 $\frac{1}{2}$ –17 $\frac{1}{2}$	5.20	3.36	12	54	42.59	3.50
Scott Paper	16 $\frac{7}{8}$	28 $\frac{1}{2}$ –12	3.52	2.41	11	39	30.20	3.10
Southwest Forest Inds	9 $\frac{7}{8}$	28 $\frac{7}{8}$ –7 $\frac{1}{4}$	3.53	1.13	9	103	27.16	1.25
Westvaco	20 $\frac{3}{4}$	30 $\frac{1}{2}$ –15 $\frac{1}{2}$	3.95	2.45	14	39	26.68	3.65

Source: William O'Neil & Co.

Ford, Wheeling Pittsburgh Steel and Newmont Mining, they dropped off our relative strength screen.

Some of the pessimism here stems from what analysts see as fundamental changes in many industries. Today's "undervaluation," they think, may become a permanent condition. Aluminum is but one example. "There is still a lot of overcapacity, and there is no longer a materials substitution factor," says Merrill Lynch's Steven Resnick. He sees another looming problem, too: "This is an energy-intensive industry, and many firms have low-cost energy contracts that are running out."

Much the same may be true for steel, according to Ben Rice of Chemi-

cal Bank's trust department. "There is greater competition than ever today," he explains. "And in a period of disinflation, with plants running below 45% of capacity, it is a poor time for the price hikes that the industry needs badly."

By our analysis, however, cheap is where you find it—and, based on the latest 12 months' earnings, 24 of the 77 companies are selling at a P/E multiple of 6 or less. Of this group more than 40% are selling at a multiple of 5 or less, based on the earnings estimate for the next year. Look closely at Hammermill Paper, Scott Paper, National Can and LTV.

A reduction in interest rates will obviously strengthen the balance

sheets of the cyclical. But another important benefit is that a drop in rates should mean a weaker dollar overseas. This is of particular value to many of these export-sensitive firms.

Our group of cyclical, of course, lost plenty of ground in the market decline that started in the summer of 1981. But the majority of these firms have responded to their falling fortunes by making deeper than usual cuts in excess personnel, inventory and capacity. They are now leaner and meaner, which should translate into reduced downside risk in terms of stock prices. Enjoy our shopping list—and remember, Wall Street's bargain counter is getting smaller every day. ■

Metals and mining

With many mining companies now selling their output for less than the cost of production, it's no surprise that this diversified group of firms has shown relatively

lackluster stock market performance over the past 12 months. With few exceptions 1983 earnings are expected to be much closer to five-year lows than highs.

Company	Recent price	5-year price range	5-year earning range		5-year return on equity	Debt/equity	Book value per share	EPS est 1983
Ampco-Pittsburgh	12 ⁷ / ₈	26 ³ / ₄ –9	\$3.92	\$1.36	12%	112%	\$25.40	\$1.45
Cleveland-Cliffs Iron	20 ³ / ₈	46 ¹ / ₄ –16	4.12	2.14	14	10	30.11	2.20
Commercial Shearing	11	20 ¹ / ₂ –8 ³ / ₈	1.92	1.13	15	6	11.77	1.50
Diversified Inds	2	8 ³ / ₄ –1	0.92	–2.76	3	23	3.34	NA
Eastern Gas & Fuel Assoc	17 ¹ / ₄	32 ¹ / ₂ –13	2.65	0.59	11	65	20.81	3.60
Hanna Mining	19	41 ¹ / ₄ –16 ¹ / ₂	6.14	2.88	10	16	49.22	2.15
Harsco	15 ⁵ / ₈	21 ⁵ / ₈ –13	3.15	2.26	15	32	19.86	3.00
Kaiser Aluminum & Chem	13 ³ / ₄	30 ³ / ₄ –11 ¹ / ₂	5.91	2.77	14	61	34.77	1.35
National Can	17 ¹ / ₄	26 ³ / ₈ –13 ¹ / ₂	5.04	1.20	11	44	36.05	3.85
Phelps Dodge	22 ¹ / ₈	48 ¹ / ₂ –17 ⁵ / ₈	5.06	0.64	7	51	52.32	–0.40
Pittston	14	34 ³ / ₄ –11 ⁷ / ₈	2.14	0.67	8	20	17.66	1.50
Revere Copper & Brass	9 ³ / ₈	25 ³ / ₈ –8 ¹ / ₈	4.50	1.64	11	91	33.16	1.55
Westmoreland Coal	17 ¹ / ₄	42 ¹ / ₂ –14	2.62	–2.17	NM	50	23.97	3.45
Wyman-Gordon	17 ¹ / ₂	27 – 7 ⁷ / ₈	3.05	1.15	18	10	12.67	2.85

NA: Not available. NM: Not meaningful

Source: William O'Neil & Co

Construction

These firms are prime beneficiaries of lower interest rates. Should the cost of borrowing money continue to fall, their share prices are likely to benefit from pent-up

demand and increased economic activity. High five-year return on equity figures for several of these companies show their earning power in better times.

Company	Recent price	5-year price range	5-year earning range		5-year return on equity	Debt/equity	Book value per share	EPS est 1983
American Standard	22 ⁵ / ₈	43 ³ / ₄ –16 ¹ / ₈	\$5.00	\$2.82	21%	41%	\$24.23	\$3.40
Bird & Son	7 ¹ / ₂	26 – 4 ⁵ / ₈	3.94	–6.50	NM	36	18.28	1.25
Butler Mfg	22 ¹ / ₄	32 ³ / ₄ –18 ¹ / ₂	4.21	2.92	13	27	29.92	2.80
Cal Portland Cement	18 ¹ / ₂	28 ³ / ₈ –11 ³ / ₄	3.49	1.92	16	33	22.85	NA
Crane	20 ⁵ / ₈	45 ⁷ / ₈ –17 ³ / ₄	5.87	3.23	13	67	41.77	4.10
GAF	10	16 ³ / ₈ –7 ³ / ₄	2.29	–3.69	11	144	4.18	NA
Edward Hines Lumber	14 ¹ / ₂	26 ¹ / ₄ –13	6.17	–3.31	5	26	44.72	NA
Koppers	13 ³ / ₄	35 ¹ / ₄ –11 ¹ / ₄	3.27	1.58	10	40	25.82	2.40
Manville*	4 ⁵ / ₈	34 ³ / ₄ –4 ¹ / ₄	5.62	1.53	7	42	51.14	2.00
McQuay-Perfex	11 ¹ / ₄	17 ¹ / ₄ –7 ¹ / ₄	2.43	1.67	13	32	20.62	2.25
Nucor	43 ¹ / ₈	82 ¹ / ₄ –11 ¹ / ₂	6.62	1.92	24	39	30.50	4.60
Pacific Lumber	18 ³ / ₄	34 –15	2.09	1.36	25	8	8.66	1.60
Pittsburgh-Des Moines	15 ¹ / ₄	60 –10	4.54	2.62	15	23	26.65	NA
Potlatch	25	49 ¹ / ₄ –19	4.69	3.24	12	64	35.55	2.15
Trinity Inds	11	30 ³ / ₄ –4	2.95	0.63	24	38	11.21	1.90
Tyler Corp	16 ¹ / ₄	29 ³ / ₈ –10 ¹ / ₈	2.91	1.83	20	144	8.57	2.15

*In Chapter 11. NA: Not available. NM: Not available.

Source: William O'Neil & Co

When S&P's or Moody's fixes a bond rating, prices move up or down fast. Here's a man who tries to predict those moves.

The ratings according to Hosinger

By Carol E. Curtis

WHEN EDWARD HOSINGER joined GEICO as an investment officer eight years ago, the big, Washington, D.C.-based auto insurer had \$700 million invested in municipal bonds. Hosinger's first task was to find a good bond researcher who could tell him how the portfolio was doing. "We wanted to invite someone down," says the slightly built, 52-year-old Hosinger, "but we couldn't find a single expert on Wall Street who understood general obligation municipal bonds."

Hosinger saw a need—and filled it. He immediately put all his energies into analyzing general obligation munis, bonds repaid through tax revenues rather than through the revenue flow from a specific project. To get his information, Hosinger began traveling widely to gather data on states, cities, school districts and various public works programs.

When he left GEICO six years ago, he took his specialty with him. Now, though many Wall Street researchers specialize in general obligation bonds, Hosinger still believes his approach is unique. As vice president of municipal bond research at Oppenheimer & Co., he has his own sophisticated, computer-based rating system. It works so well, Hosinger claims, that over 85% of the time he can anticipate rating changes made by Moody's and Standard & Poor's.

Each of these big rating services follows about 10,000

issues. Hosinger tracks only about 1,000. His universe includes 40 states, 300 cities, 300 hospitals and 100 municipal electric systems. Hosinger also supplements data released by states and municipalities with his own monitoring of statistics, such as total unemployment claims, budgets, electric output by regions and various business indexes. "If anything appears out of line," he says, "we can move quickly. We expect our clients to outperform the averages by avoiding issues we think will be downgraded and concentrating on the issues that are



*Municipal bond expert Edward Hosinger
Down on Houston and Toledo, up on Miami.*

either fairly rated or underrated."

That can be an advantage. With each drop in a bond's rating, its price normally falls by 5% to 10%. On the other hand, when ratings go up, so do prices—again by some 5% to 10%.

Hosinger's biggest disagreement with the rating services today relates to cities that suffered most in the 1974 recession. He agrees that such urban areas as Boston, Cleveland, Detroit, Philadelphia and New York still have problems, but he thinks the glare of publicity has prompted change for the better. New York City, for example, improved its accounting system and cut spending. While the city is still on his "watch" list, Hosinger does not expect a major default.

His major concern is with cities not in the public eye, with high debt, growing social service expenditures, high unemployment and slow-to-act municipal management. His current candidates for lower ratings include:

Houston—A surprising choice; Moody's gives Houston its highest Aaa rating. Hosinger rates it Aa—still attractive, but less so. Huge debt, a growing welfare burden from the influx of workers unable to find jobs, and big infrastructure requirements are looming problems. "We are not saying Houston will default, but we are saying Houston is overrated."

Portland, Me.—The city's weak liquidity position and "relatively poor" general fund balance rate an A, Hosinger thinks. Moody's gives the city an Aa1, its next to highest rating.

St. Paul—Hosinger thinks St. Paul's total debt burden (at \$2,100 per capita) is high, despite the "fair" appearance of its general fund side. He gives the city a Baa, compared with Moody's Aa.

Stamford, Conn.—Despite Moody's Aaa rating, Hosinger rates it an A—a drop of two grades. "The city has a high debt burden and a high property tax. That makes it hard to raise taxes, given the need for more revenues."

Toledo—The city's high unemployment, because of its dependence on glass and construction, contributed to large deficits and a low general fund balance. Hosinger thinks many of the jobs may not come back. He gives Toledo a Baa, two grades below Moody's A1.

All of Hosinger's efforts don't produce doom and

gloom, however. He also lists some places that he feels are now underrated. Among them:

Colorado Springs—The growth in population in this community comes because of a growing number of high-technology companies. This, Hosinger says, has created full employment without a high debt burden. His rating: Aaa, compared with Moody's Aa1.

Miami—Hosinger thinks that Miami, despite its bad publicity, is an underrated city right now. Last year, he points out, Miami had a \$6 million surplus in its general fund, in part because of the rise of areas like Coral

Gables as centers for South American trade. Miami has also become the country's third-largest manufacturing center. He gives Miami an Aa, a notch above Moody's Aa1.

San Antonio—"The boom boom in oil may be over, but there's still a boom in San Antonio," quips Hosinger. He likes the city's "vibrant, forward-looking management," led by Mayor Henry Cisneros, "who has continued to keep revenues and debt in balance with growth." He rates the city Aaa, while Moody's gives it Aa.

San Diego—"A rapidly growing city where the debt burden has not gotten

out of hand as it has in Houston. Here you find prosperity without a rapid jump in debt." The city is easily worth an Aaa, Hosinger says, compared with Moody's Aa1.

Hosinger's system doesn't produce outright recommendations. But he has been right often enough to show that prospective municipal bond buyers should not invest on the basis of conventional ratings alone. In fact, he's particularly partial to situations where the ratings services are overly pessimistic. "The best time to buy something," Hosinger concludes, "is when everyone's criticizing it." ■

Streetwalker

Oil service stocks are low and may go even lower. When will bargain time arrive?

Bottom of the hole

By Toni Mack

RUSSELL MILLER of Alex. Brown & Sons is getting an unusual reaction these days when he asks once-ebullient oil service executives about their prospects. "Some say, 'Russ, you've been in this business 12 years. What do you think?'" says Miller. "That's no comfort to me."

Just a few months ago, when FORBES reported on oil service companies decimated by Wall Street (*June 21*), most companies expected drilling

to turn up in the second half of the year. It did not happen. The stocks cited by FORBES have since dropped an average 21%. Some have hit new lows; some may go lower still—and that may make for bargain buying.

Drilling has been choked by a tangle of problems: The low price of crude, high debt service and weak demand are squeezing oil companies' cash flows. What little cash they can muster may be better spent paying down high-cost debt or buying reserves on the cheap. As for third-party financing, drilling

fund sales are off at least 50% for this year, and the Penn Square Bank fiasco will make bank loan officers extremely tightfisted. What's more, natural gas is in oversupply. So explorationists are shying away from the deep and difficult wells that mainly produce gas but account for half the spending on domestic drilling.

It sounds bad, but it could get worse. "If Mexico and Canada get desperate and start unloading energy into the U.S., it can keep the oil service industry in recession for a few years," warns Bruce Bredehoft of Investors Diversified Services. Other potential zappers: a steeper drop in oil prices, more taxes on energy, a softening in still-strong international drilling and a slow U.S. economic recovery.

Barring disaster, drilling will probably turn up in a year, with oil service stocks bottoming out in the next three to six months. "They may drop another 10% to 15% from prices now," says analyst Philip Meyer of F. Eberstadt, "but I'd be surprised if they don't double in two years."

In the meantime, the chastening is for the good. During the past few years giddy suppliers with visions of \$85 oil didn't bother to keep an eye on costs. Now bankruptcies will whittle capacity. Parker Drilling, which gave field workers raises twice a year, may lower salaries this year. Dresser Industries has cut its oil services work force by 2,500, a full 17%. Prices for some oil tools have been cut up to 40%. "Today you can drill a well as much as 25% cheaper than a year ago," says First Boston Corp.'s Gamble Baldwin. "That will have its effect on producers."

Optimism, then, is at the bottom of the barrel. "A reasonable price for hydrocarbons ultimately stimulates demand," says Meyer, "and that's ultimately better for the health of oilfield services." ■

Drillers can hit bottom, too

Sam Albright of Paine Webber Mitchell Hutchins is a pessimistic oil service watcher. Even so, he's recommending these industry leaders.

Company	—Latest 12 months—		Estimated 1983 EPS	Recent price	% decline from high
	sales (mil)	EPS			
Baker International	\$2,595	\$4.10	\$3.50	20¾	61%
Dresser Industries	4,498	3.19	3.50*	14⅞	73
Halliburton	8,502	5.55	5.15	23⅞	72
Hughes Tool	1,852	4.52	3.50	17⅞	65
NL Industries	2,617	5.25	3.75	17⅞	63
Schlumberger	6,133	4.82	5.00	36¼	58
Smith International	1,251	6.04	4.00	19⅞	72

*Midpoint of range.

Sources: Paine Webber Mitchell Hutchins; Standard & Poor's

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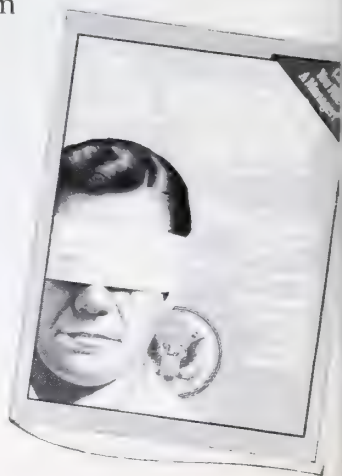
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The bond market is rational. But it's chock-full of illogical curiosities. Here are three of the more unusual examples.

BEYOND ANALYSIS

By Ben Weberman



The fixed-income markets are supposed to be a haven of cold, rational analysis. Buy a bond, and you get exactly what you pay for. Yields always correspond to risk.

Hogwash. There is often a country-mile gap between reality and what the market says. Here are three examples of illogic: a utility that did well by doing poorly, another that should pay interest regularly even if it has too much expensive capacity, and a debt seemingly guaranteed by GNMA that could run out of cash.

The bonds of New York's Consolidated Edison Co. are among the most attractive electric utility fixed-income investments around these days. They hold that position because the company was on shaky ground in 1974. Illogical? Not really. Problems at Con Ed almost a decade ago helped put the utility in sound condition today.

In early 1974, for example, Con Ed earnings were falling sharply. Its cash flow was under strain. In a move that shook Wall Street, the utility omitted one quarterly dividend on its common in 1974 and then resumed payments at less than half the previous level.

During its lean years the utility's bonds were downgraded by Standard & Poor's from BBB—the lowest

investment grade—to BB. That's a rating for speculative holdings.

All this happened, remember, just as the country was entering a period of double-digit inflation and while energy consumption and costs were growing rapidly. While other utilities were tooling up extensive capacity expansion, Con Ed was pulling in its horns. It sold a 9½% bond due in 2004 in March 1974 for 100¼—the last time the company came to market. That bond fell to 66 by the end of the year because many investors were anticipating a Con Ed default.

Today, of course, the world is very different. Other utilities are paying for excess capacity, while Con Ed gets high marks for avoiding overexpansion.

The result of all this is that Con Ed bonds are now rated A-1 by Moody's and AA by Standard & Poor's. Those 9½s of 2004 sell for 68, about the same price they did at year-end 1974.

Contrast that recovery with the current plight of the Washington Public Power Supply System. It began a \$23.8 billion nuclear capacity addition in 1972, when that fuel was all the rage.

WPPSS Projects 1, 2 and 3, however, carry the moral obligation of a federal government agency—the Bonneville Power Administration—to continue debt payment. This plays a key role in expectation that the investment risk is worth the return. Bonneville has a take-or-pay contract that obligates it whether or not it actually buys electricity. So some bonds for Projects 1, 2 and 3 are still selling at a premium over their original offering prices. Long-term WPPSS projects 1, 2 and 3 yield about 11.75%.

Projects 4 and 5, meanwhile, were started later—when local govern-

ments in the Pacific Northwest insisted that they wanted to get in on cheap power. These are in serious financial difficulty because the same utility customers are now demanding to be let out of their purchase commitments. Debt for these projects carries a far higher risk, and bonds are trading to yield 14%.

If you think government guarantees will let you sleep soundly, think again. The owners of certain Aaa-rated New York State Dormitory Authority issues collateralized by GNMA mortgages got a shock recently. The Authority had invested idle cash of its component borrowers through Lombard-Wall, and some seemingly unimpeachable securities were threatened when that small government securities firm filed for bankruptcy.

Default on these loans is not likely. But a debt issue scheduled to be backed by a mortgage carrying a full-faith and credit obligation of the U.S. Treasury was suddenly transformed from triple-A to questionable quality.

Still, there may be opportunities here. I have frequently recommended several NYS Dorm hospital bonds collateralized with a GNMA mortgage. These include Long Island Jewish-Hillside, New Rochelle and Church Charity Foundation of Long Island hospitals. The tax-free yields are in the 10.25% area on long-term maturities despite the solid GNMA backing. The return is high because of the poor reputation of the Dormitory Authority and other New York State moral obligations. But there is a GNMA behind each of these projects after completion of construction.

"Tempting tax-exempts"

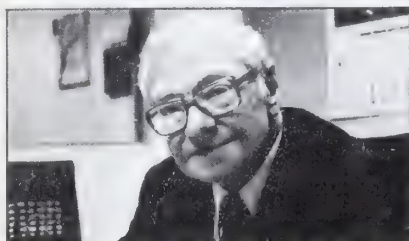
If you can use tax-exempt income, prudently chosen obligations backed by the full faith and credit—and taxing power—of governments offer particularly good returns right now. Yields on Aa-rated tax-frees are within 75% of the return on Aa quality taxable bonds. Historically, that ratio has been closer to 65%. Some narrowing of the gap stems from lower personal and corporate tax rates that make tax exemption less valuable. To a large extent the proliferation of tax-exempt financing for private use accounts for the relative rise in rates. ■

Ben Weberman is economics editor of FORBES magazine.

Common stocks are not the bargain they were just a month ago. That 545 NYSE stocks made new 12-month highs in a single week says it all.

OUT OF THE WOODS?

By Heinz H. Biel



What originally looked like just another attempt at a summer rally, spurred by a dramatic decline in interest rates, has turned into a stock market boom of major proportions. In only three weeks the Dow gained more than 16%. It has all been a bit puzzling, because there was so little cause for celebrating. The only good news was another uptick in the index of leading indicators, the fourth in a row. Another rise in this index is highly probable this month, because the stock market itself is one of its components. Thus it seems that the long-awaited recovery will begin to show up in the statistics before long.

Except for the huge volume, this most recent upsurge is not without precedent, and that is the reason there is a question mark in the title of this column. Back in 1974, another truly miserable year, stock prices made what seemed to be an important low on Oct. 4. Then they rallied briskly, with the Dow gaining 90 points, or more than 15%, in just one month. It looked like the turn had come. Alas, it was a false move and by Dec. 6, again just one month later, the Dow had given up the entire gain and set a new low, but that one turned out to be the real bear market bottom. History does not have to repeat itself, but it is prudent to keep it in mind.

Heinz H. Biel is a vice president of the NYSE firm of Janney Montgomery Scott.

So, what are we going to do now? Some of us had been nibbling on stocks for some time before the upturn last month, but most investors—individuals as well as institutions—have been and still are very liquid, perhaps too liquid. Until recently, keeping idle funds parked in T bills or the money market funds had been so remunerative that the incentive to invest was not great. Now, however, yields are slipping to a single-digit rate, and boiling bond and stock markets are beckoning.

I do not disagree with forecasts of a further decline in long-term interest rates, which means that there is still money to be made in bonds. The potential gain, obviously, is greatest in the longest-term bonds. Personally, I would rather forego some of the profit and stick to intermediate-term maturities, say four to seven years, because I think it is unrealistic to believe that inflation is no longer a serious threat, and I would not dare to predict what it will be in the decades ahead. But if you do want to go long term, buy only Treasury securities or actively traded corporates of highest quality (rated no lower than AA). At least they can always be sold, even in a bad market.

Common stocks are no longer the bargain they were just a month ago. The fact that 545 NYSE stocks made new 12-month highs in a single week says it all. Is it still time to jump on the bandwagon, or should one wait for a "correction" such as occurred in the fall of 1974? I wish a clear-cut answer were possible, but since it isn't, I suggest that those who already are fairly well invested in stocks wait for a setback, while those who are grossly underinvested do some buying on any minor pullback.

Such top-tier stocks as GE, Ko-

dak, IBM, Procter & Gamble and the like, are still "reasonably" priced, but no longer "cheap." The relative bargains can be found among the stocks that, for a variety of reasons, have barely recovered from their lows. *Schlumberger*, one of the world's great companies, is just one example. *Chase Manhattan* got a black eye, but I doubt that its image has been permanently damaged. It sells at less than half its book value, at little more than 3 times projected 1983 earnings and yields close to 10%. Except in case of worldwide calamity, its loss reserves should be adequate. I would be willing to take a moderate risk in that stock.

Let us also keep in mind that unless we get at least a modicum of a recovery in our economy, the stock market outlook may be less than rosy. But if conditions do get better, should we not take a look at the high-quality cyclical, such as *Caterpillar*? Or the best in the chemical and forest products industries? Or stocks like *Alcan* and *Alcoa*? And should we shun the oils indefinitely? These are the areas where the potential appreciation is still great.

If you want to combine the relative stability of a consumer goods stock with the greater appreciation potential of a cyclical stock, you might consider *Seagram* (55). When its attempt to take over Conoco failed last year, it became, willy-nilly, a major holder of Du Pont, the country's largest chemical company. Seagram has been buying more stock lately and now holds 50.1 million shares, or 21.3%, of Du Pont, which works out to about 1.7 shares for each share of Seagram.

Seagram consolidates its proportionate share of Du Pont earnings into its own, and when Du Pont's earnings improve, as is expected in 1983, it will have a leveraging effect on Seagram's net. Its own liquor business is fine, but growth is slow. The Du Pont investment adds the spark that makes Seagram a far more interesting situation. In addition, Seagram still has some not insignificant oil and gas holdings, which someday will again be considered a plus factor. Earnings for the past fiscal year (ended in July) were about \$9 a share, and the present \$1.80 dividend rate is likely to be increased before long. ■

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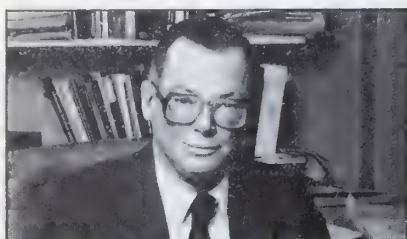
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Tax cuts unaccompanied by expenditure reductions have blown up in the President's face. We must live with the debris.

WHY REAGANOMICS IS FAILING

By Ashby Bladen



We are now entering the dramatic stage of the financial crisis. Bankruptcies, losses and other financial problems are cropping up all over the place. I will continue to make suggestions about coping with the problems and maintaining both your poise and your pocketbook intact as the crisis intensifies. But if we are ever to get out of this mess—as distinct from surviving in it—it will have to be by way of a fundamental reappraisal of the political policies that originally got us into it, and by deliberately choosing better policies for the future.

President Reagan won the 1980 election by attacking the old policies, but his new ones also turned out to have a basic flaw. He has now been forced to face the fact that his Lafferite tax policy was inherently incredible. In the process he has lost his plausibility as an economic policy maker. This fall's congressional elections are virtually certain to result in a stalemate rather than a new beginning, and so in 1984 we will have to try again.

I am by nature an incurable optimist, so I suspect that I will also aim another book at our national economic policies, timed to hit the bookstores when we start thinking

about the nominating conventions. Consider this column a preview of a chapter in my next work. It will start with the misconceptions about borrowing and spending that academic popularizers of John Maynard Keynes foisted on us more than 40 years ago and that still plague financial policy making.

Any borrowing—not merely a bank loan—creates purchasing power that we can spend today, by mortgaging the future, when we will be expected to pay it back. The only time that it is an obviously prudent thing to do is when we invest the proceeds in productive facilities that will expand the output of real goods or services, thereby assuring the means of repaying the loan. Any time we borrow to enjoy the good things of life today, without providing a way of repaying the loan tomorrow, we assume an unnecessary risk. It is a risk that young people, who presumably have long and productive lives ahead of them, may want to assume. But a risk that society as a whole usually should *not* assume.

Throughout the postwar era, economists have been persuading society to assume that risk wholesale because they drew too sweeping a conclusion from Keynes' specific prescription for curing the Depression. He argued that the Depression was threatening to become a permanent state of affairs because the public was persistently trying to save more than businessmen were willing to borrow and invest productively—precisely because the depressed level of demand made them doubt that the investment would, in fact, pay for itself. The obvious solution was to stimulate demand by encouraging borrowing and spending for *any* purpose.

Keynes understood that encouraging borrowing to spend on consump-

tion only made sense as a cure for the Depression. When the inflationary pressures of World War II came along, he recommended that Britons be forced to save, not borrow and spend. But his popularizers seized on his explanation of the Depression as the result of a chronic tendency to underspend and made borrowing and spending a universal nostrum, good at all times and for all diseases.

In the U.S., this simplistic Keynesianism reached the peak of its popularity during the Kennedy Administration, when the very bright but not very wise academics who devised the New Economics believed that they could keep the country running permanently at full employment, without slumps and without inflation, by a judicious mixture of government borrowing and spending, and readily available credit for all the rest of us. Only now are we beginning to realize that the practical result was first an accelerating inflation caused by the wholesale creation of purchasing power, and then increasing financial problems, as the mortgaged future became the troubled present.

A second practical consequence of the academic misinterpretation of debt formation was that President Johnson was able to get away with heavily mortgaging our national future in order to hide the true cost of the war in Vietnam. The purchasing power thus created worsened the inflation in the 1960s, and the mortgage is worsening our financial problems now. A third consequence was that the temporary prosperity that resulted from creating all that purchasing power led us to believe President Johnson when he said that we could further mortgage our future by enacting open-ended transfer payment schemes that everybody who qualified was entitled to, regardless of how many other people were also getting them.

It is not clear whether President Reagan would have been elected if he had chosen to face up to these fundamental problems and to propose realistic solutions for them. But the easy answer of tax cuts unaccompanied by corresponding expenditure reductions has now blown up in his face, and for the next two years we will have to live with the debris. ■

Ashby Bladen is senior vice president for investments of the Phoenix Mutual Life Insurance Co. and author of How to Cope with the Developing Financial Crisis

Economic forecasting is the occupation that makes astrology respectable.

THE MADNESS OF CROWDS

By David Dreman



While Wall Street has not yet accepted either *The World According to Garp* or that according to Chairman Mao, it has come close to deifying some major cult figures of its own. As recent market action clearly shows, every important utterance from Henry Kaufman, among others in this Olympian group, is treated with the jubilation or terror it is believed to deserve. Zeus should have had it so good!

The Olympians' messages are clear, often conjuring up images of boom, recession, financial panic, shortage or glut, depending on the oracle's current views. Such messages are particularly effective at stirring up crowds, as Gustav Le Bon, the father of crowd psychology notes in his book, *The Crowd*. According to Dr. Le Bon, "A crowd thinks [only] in images—these image-like ideas are not connected by any logical bond or analogy, and may take one another's place like the slides in a magic lantern."

When the image in the magic lantern changes, Le Bon writes, the succeeding slide is often dramatically different. Market action in the latter half of August is a perfect example. After months of crumbling prices and eroding investor

confidence, the Dow turned on a dime, ending with both the largest single gain and the greatest volume in its history.

What has changed? Fundamentally, nothing. Psychologically, everything. For the opinions on interest rates of several of the most prominent Olympians, upon whose every word the herd hung, swung 180 degrees. The experts' crystal balls, which had previously predicted rates soaring to 25%, now showed they would drop sharply. Economic forecasting, a pundit once noted, is the occupation that makes astrology respectable.

In fact, interest rates had been declining through most of 1982. From February to mid-August, for example, AA utility bonds dropped from 17½ to 14½; tax exempts from 14½ to 12¼ and T bills from 14¼ to under 10. The facts were there for months but were ignored or relegated to the back-burner until sanction by the experts blew the stock market's lid off.

For investors, there are two important lessons to be relearned from that explosive time. The first is that cults of personality, as the Chinese learned in the Sixties, are dangerous. In the marketplace, not only are they dangerous, they very often are destructive.

No expert, as I have noted before and as Richard Hoey pointed out in his Sept. 13 *FORBES* column, is continually right. Regardless of the tremendous reputation some have acquired, most have proven more wrong than right over the years. The *Institutional Investors All-Stars*, for example, supposedly the top analysts in the country—selected as they are from over 15,000 of their peers—outperformed the market in only one out of every three calls in a survey done by a financial publica-

MONEY & INVESTMENTS

tion around two years ago. Throwing darts would have increased their odds to 50-50.

The point then is to learn the facts for yourself. If expert thinking seems far out of line with what you can see, don't buy it! Forget what the pros are saying and go your own way. Often they are caught up in the same destructive crowd psychology as individuals, and—as their overall record indicates—get hurt just as badly, if not worse.

Fortunately, it is the very change in investors' perceptions that is the heart of low-P/E investing. Many companies that are financially strong, show good earnings growth and excellent dividend yields are, for whatever reason, temporarily in the investor doghouse. But if the companies continue to prosper, as is often the case, investor perceptions will change again, this time, very positively.

Three first-rate companies, in my opinion, where investors might change their perceptions:

Aetna Life & Casualty's (37) earnings, although cyclical, have grown at a 14% rate over the past ten years. Income in the current down part of the insurance cycle should decline moderately this year, with gains commencing in 1983. The stock trades at a price/earnings ratio of 6 and yields 6.8%.

Security Pacific Corp. (31) is the ninth-largest bank in the nation, with the second-largest branch banking system. Earnings are likely to be flat in 1982 but, aided by falling interest rates, should turn up in 1983. The stock trades at a 40% discount from book value and is priced at 4 times earnings, with a yield of 7.9%.

Standard of Ohio (31) is a major domestic oil, with 3.2 billion barrels of oil and 6.1 billion cubic feet of gas in Alaska alone. Although earnings should be down, partially because of its large mineral interests, which are currently in the red, the stock has a price/earnings ratio of 4 and yields 7.6%.

As this column has noted, nothing changes in markets as violently as investor psychology. For the investor who understands this, it is a major plus-tick because it gives him a good chance to make money from crowd action first noted by the good Dr. Le Bon. ■

David Dreman is managing director of Dreman, Gray & Embry, Investment Counsel, New York, and author of *Contrarian Investment Strategy*.

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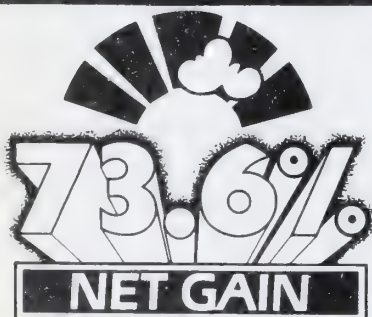
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Psychology & Investing

When the jury accepted Hinckley's insanity plea, more Americans: a) bought guns and b) became short-term traders.

OF GUNS AND MONEY

By **Srully Blotnick**



During three recent trips around the U.S., I was surprised at how many doctors, lawyers, pharmacists and stock, real estate and insurance brokers—business people of every description—had bought a gun in the last two years. Middle-class gunslingers. What made that particularly striking is this: In the past, these upper-income individuals were significantly less likely to own firearms than any other group.

They believe in law and order, and what that means to them is that a civilized and well-ordered society should be fostered in two ways: First, people should be responsible for their own behavior and not require someone to remind them constantly about right and wrong. Second, a strong police presence and effective judicial system should be maintained to apprehend and swiftly punish those who fail to observe the rules. Over the years, concern was expressed by this group about the "bad example it sets" when a criminal offender gets off scot-free, thanks to some fancy legal footwork, or gets a slap on the wrist for a brutal or fatal assault.

The Hinckley verdict upset them more than one might imagine. "If the President isn't safe from mani-

acs," was a widely repeated refrain, "who is?" They felt that the judgment of "not guilty by reason of insanity" failed to set a needed example to dissuade others from committing a similarly violent crime.

Whether you label it a normal backlash against a permissive society or call it pathological, there is no mistaking the depth of the feelings aroused. "I bought a gun [a .357 magnum] because I know that sooner or later I'll have to use it," said a 49-year-old lawyer in the Detroit area. "Who's going to protect me? I see what's going on around here, and it stinks. Believe me, it's every man for himself." A 54-year-old financial analyst in St. Louis remarked: "I don't like having it [a 9mm semiautomatic] in the house, but I think the time has come. I've learned how to use it, too." A 56-year-old corporate executive in Portland, Ore. commented: "I originally bought my .22 for hunting, but I'm glad I have it. There's no telling what's coming, and it pays to be prepared. The country has really changed. It's not what it used to be."

The arming of America's affluent class has serious implications for business and investing. What's good for guns is not necessarily good for America. There is a clear connection between feelings of insecurity and turmoil in the financial markets, such as the kind we have seen since mid-August. Here's why:

It takes a great deal of faith in a country's or a company's future to tie up your money in its securities for the long term. And that is precisely the element that has eroded significantly of late, along with faith in law and order. The thinking runs as follows: "Economic unrest eventually translates itself into social unrest. The millions of unemployed and marginally employed

Dr. Srully Blotnick is a research psychologist and author of Getting Rich Your Own Way and Winning: The Psychology of Successful Investing.

MONEY & INVESTMENTS

haven't yet begun to react to their situation because it is still so new. The summer of 1982, therefore, didn't see any riots. But wait until summer 1983 and 1984. The level of economic vitality in this country is pumping along at a dangerously low level. Nor can it be remedied by any quick fix.' This is one problem we are stuck with for a while, as the economy stagnates. There is frustration among the employed and bitterness among the unemployed. Only strong economic growth can alleviate both, and it is nowhere on the horizon, in spite of the market's recent rally."

The feeling that leads normally peaceful people to buy guns also makes them uninterested in long-term investing. Typical comment: 'Why should I tie up my money long term in anything? Better to stay short term in my orientation, using money funds and CDs, and jump into and out of the stock and options markets.'" This from a man who recently purchased a handgun.

Revealingly, it was the energy crisis, specifically the second "oil shock" in 1979-80, that finally convinced many people to worry only about themselves. Had the burden of this dramatic increase, on top of the fourfold jump in oil prices during 1973-74, been distributed evenly throughout the U.S., there might be more optimism now among the members of my sample about the nation's ability to handle present and future adversity. Their argument is simple but powerful: "Our oil and coal, our rich natural-resource base hasn't served us well. Why? Because some regions of the country were poor in energy resources, and suffered, while others had plenty, and prospered. Unlike the Japanese, who import almost all of their energy, we had no incentive to stand together. Millions of Americans were cheering the rise in oil prices at the same time that millions of others were alarmed—and eventually out of work."

In short, only a resumption of vigorous economic growth will extend the time horizon of the majority of middle- and upper-level investors. That can't happen soon enough. The giddy but corrosive attitude of "it's every man for himself" is beginning to feed on itself and become self-fulfilling. ■

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ARIZONA SILVER CORPORATION CONTINENTAL SILVER CORP.

O-V
O V

JOINT NEWS RELEASE

VANCOUVER, B.C., Canada, August 20, 1982—Due to the recent price increases of precious metals ARIZONA SILVER CORPORATION and CONTINENTAL SILVER CORP. announce that they have now implemented a program for the sale of silver/gold produced from their White Hills Mining Properties located in Mohave County, Arizona, U.S.A.

Initially the program is to gradually sell, in accord with the market, inventory produced primarily from the G.A.R. Mine (ARIZONA) and the Hulda Mine (CONTINENTAL) which was stockpiled while waiting for market conditions to improve.

On August 18, 1982 inventory was sold consisting of 6,000 troy ounces of silver at \$6.95 (US) per oz. and 30 troy ounces of gold at \$356.00 (US) per oz. This resulted in total sale proceeds of \$52,380.00 (US) which will be credited on the basis of approximately 65% to ARIZONA and 35% to CONTINENTAL.

Once inventory has been sold, provided that metal prices remain at or increase beyond the current levels, sales will continue from on-going production (currently about 125 tons per day) which will be accelerated as market conditions warrant.

Further production and sales figures with respect to the mining operations of ARIZONA/CONTINENTAL together with a Progress Report on the gas/oil operations will be released in the near future.

ON BEHALF OF THE BOARD OF DIRECTORS BY:

Charles S. Underhill — Director

ARIZONA SILVER CORPORATION

Capitalization:

Authorized 10,000,000 Shares
Issued 3,167,934 Shares

Listed

Vancouver Stock Exchange ARZ
NASDAQ ARZ NF

CONTINENTAL SILVER CORP.

Capitalization:

Authorized 5,000,000 Shares
Issued 2,545,086 Shares

Listed

Vancouver Stock Exchange CVR
NASDAQ/CTL SF

(Contact: Charles S. Underhill, Director, Arizona Silver Corporation & Continental Silver Corp., Suite 1140, 625 Howe St., Vancouver, B.C. Canada V6C 2T6 Phone: (604) 689-5588, or Michael A. Connor, Balfour Securities, 630 Fifth Ave., Suite 2170, New York, N.Y. 10111 (212) 489-7133.)

FIRST NATIONAL BANK IN PALM BEACH

O

PALM BEACH, FL, August 4, 1982—Thomas M. Keresey President of the First National Bank in Palm Beach, and Wesley E. Horton, President of ABT Financial Services, Inc., announced today that First National has become the investment adviser to American Birthright Trust and Tax-Managed Fund for Utility Shares, Inc., two tax-managed mutual funds, effective today. ABT Financial Services is the new distributor of the funds' shares. These funds have combined assets totaling approximately \$241,000,000.

First National Bank in Palm Beach, the principal subsidiary of The First National Bank of Palm Beach, Incorporated, is one of the largest commercial banks in Palm Beach County, Florida, with assets in excess of \$350,000,000. First National Bank's Investment department supervises approximately \$500,000,000 in customers' securities portfolios, with over \$65,000,000 of new assets under management acquired in 1981 alone.

The First National Bank in Palm Beach was founded in 1927, and now has equity capital of over \$40,000,000. The Bank's profitability and capital strength are well above industry norms. Return on average assets was 1.9% and return on average equity was 14.3% in 1981. Its ratio of equity capital to total assets at the end of 1981 was 11.9%.

approximately double the national average. The Bank is a publicly-owned corporation, and its stock is traded in the over-the-counter market.

ABT Financial Services is wholly-owned by Mr. Horton and will employ the same personnel previously engaged in distributing the funds' shares.

(Contact: David L. Jones, Vice President-Director of Marketing, First National Bank in Palm Beach, 255 South County Road, Palm Beach, FL 33480. Phone (305) 655-7111, Ext. 420; or Curt Pollitt of ABT Financial at (305) 655-3481.)

BARTON VALVE CO., INC.

O

SHAWNEE, OK, August 12—Barton Valve Co., Inc. (OTC: BART) reports net earnings of \$3,113,664 for the nine months ended June 30, 1982, up from \$2,808,605 for the first nine months of fiscal 1981. Revenues for the current nine months were \$20,852,153, up from \$14,720,505 for the same period of 1981.

Earnings per share were \$1.00 for the nine months ended June 30, 1982, compared with earnings per share of \$1.22 for the 1981 period. The weighted average number of common shares outstanding for the current nine months was 3,107,223 compared with 2,303,365 for the first nine months of fiscal 1981.

For the quarter ended June 30, 1982, net earnings were \$274,826, or \$0.08 a share, on revenues of \$3,248,378. Third quarter earnings in fiscal 1981 were \$1,244,657, or \$0.51 a share, on revenues of \$6,388,216.

The company said the third quarter's earnings decline reflects the downtrend of domestic drilling activity which began in the latter part of the second fiscal quarter and continued throughout the third quarter.

Barton Valve is engaged in manufacturing valves, chokes, blowout preventers and related equipment used in oil and gas drilling and exploration.

	(Unaudited)		(Unaudited)	
	9 Mos. Ended June 30	1981	3 Mos. Ended June 30	1981
Revenues	\$20,852,153	\$14,720,505	\$3,248,378	\$6,388,216
Earnings				
before taxes	5,446,664	5,001,105	288,826	2,290,157
Net earnings	3,113,664	2,808,605	274,826	1,244,657
Earnings per common share	\$1.00	\$1.22	\$0.08	\$0.51

Weighted average number of shares

outstanding	3,107,223	2,303,365	3,399,531	2,425,125
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(Contact: Harry L. Johnson, Executive Vice President, Barton Valve Co., Inc., 3500 N. Harrison, Shawnee, OK 74801. Phone: (405) 273-7660.)

MCRAE CONSOLIDATED OIL & GAS, INC.

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The following is the 6 month report given to shareholders by David L. Kelley, President & Chief Executive Officer:

I am pleased to report on the results of operations for the first half of the Company's new calendar fiscal year. Gross income from operations increased 17% to \$21,355,000 reflecting improved margins in the Company's business despite an overall smaller volume of gas sales which produced a revenue of \$78,251,000, down 2% from the same period last year. Net income from operations was \$11,196,000, up from \$9,065,000 in 1981, an increase of 23%, while working capital provided from operations improved to \$12,925,000 from \$10,507,000, also up 23%. Profit levels remain ahead of the comparable period last year by approximately 10%, with net income totaling \$6,240,000 or \$4.40 per share versus \$3.36 per share last year.

We are encouraged by the continuation of improved operating margins in our second quarter with gross income from operations up 5% to a total of \$9,588,000. As a result

of very weak industrial activity in Louisiana, however, have experienced second quarter gas deliveries even than normally observed in this period of seasonally demand. Total Revenues in the second quarter \$37,259,000, down 7.3% from the 1981 period with income for the quarter at \$2,437,000 versus \$3,046,000 1981 representing \$.16 per share as compared to \$.1 share last year.

	(in thousands except per share data)		(Unaudited)	
	6 Mos. Ended June 30	1981	3 Mos. Ended June	1982
Total Revenues	\$ 78,251	\$ 79,666	\$ 37,259	\$
Cost of Gas & Lease Operating Expenses	56,896	61,395	27,671	
Gross Income from Operations	21,355	18,271	9,588	
Cost and Expenses:				
General & Administrative	4,878	3,745	2,193	
Interest Expense	1,722	2,403	869	
Depreciation, Depletion & Amortization	3,559	3,058	1,893	
Total Costs and Expenses	10,159	9,206	4,955	
Net Income from Operations	11,196	9,065	4,633	
Provision for Income Taxes:				
Current	1,830	1,616	1,008	
Deferred	3,102	1,747	1,188	
Net Income	\$ 6,264	\$ 5,702	\$ 2,437	\$
Earnings Per Share	\$.40	\$.36	\$.16	\$

Average Shares

Outstanding	15,648,738	15,632,495	15,664,803	15,6
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In other matters, the company is announcing the successful completion of the Cotton Petroleum Corp. Robert Trahan Well in Vermilion Parish, LA. The well f 1.6 million cubic feet of gas and 431 barrels of condensate per day from perforations between 15,444 and 15,446 in the Marginulina howel sand on an 8/64 choke with pounds flowing tubing pressure. McRae Consolidated Gas, Inc. owns a 25% working interest in the well and acres around it.

(Contact: Bromley DeMeritt Jr., Vice President, McRae Consolidated Oil & Gas, Inc., 800 Dresser Tower, Houston 77002. Phone: (713) 652-5858.)

MARCH RESOURCES LTD.

PRYME ENERGY RESOURCES LTD.

August 30, 1982—March Resources Ltd. (V-MH) Vancouver said today it was negotiating to participate jointly with an associated company, Pryme Energy Resources Ltd. (V-PYE), also of Vancouver, in the exploration of more than 200 claims newly acquired by Pryme in the Gold Exploration area located in northwestern Ontario.

The new acquisition by Pryme brings its holdings in the region to in excess of 400 claims. David R. Bell of Tim Ontario, a geologist responsible for the area's first discovery, has been retained as consulting geologist.

More than 20 companies are involved in what a leading Canadian mining journal calls the most exciting new scene to hit Canada in recent years. Two significant bodies are now documented and geologist Bell suggests area could prove up several gold deposits over a seven mile area.

Preliminary engineering reports and exploration recommendations are expected soon on both the Pryme-I claims and the Pryme claims.

The company said that the federal outlaw no. 1 well test in White Pine County, Nevada is drilling ahead 11,244 feet in the Laketown (Silurian) formation.

CORPORATE REPORT Updates

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company said it has been advised by the operator, Odore Resources Corporation, that an additional zone of interest between 10,380 feet and 10,260 feet will be reached after the well has reached total depth. The 240 foot in dolomite rocks within the Laketown formation and gas level readings of up to 30 units.

Arch said at least three formations of ordovician age expected to be encountered as the well progresses to its target depth of 12,500 feet.

A federal outlaw no. 1 previously was reported to have entered four log-indicated zones of interest between approximately 3,000 and 5,500 feet. Intermediate casing (inch) was set at a depth of 5,507 feet.

Arch has a 30 percent working interest in the well and prospect acreage. Four additional Vancouver-based companies are participating as follows: Admiral Mines Ltd., 7.5 percent—Pryme Energy Resources Ltd., 5 percent—International Damascus Resources Ltd., 5 percent—Macmillan Energy Corp., 2.5 percent.

For further information, contact March Resources Ltd. Pryme Energy Resources Ltd. for Frank Matthews, or Mr. L. Agostino, Douglas Collingwood or Robert Baumbach at Suite 202, 595 Howe St., Vancouver, B.C., Canada V6T 1S5. Phone: (604) 687-8867.

SHONEY'S INC.
NASHVILLE, TN., August 25, 1982—Shoney's, Inc. today reported record revenues, net income and earnings per share for both the third quarter and 40 weeks ended August 1, 1982. This marks the 93rd consecutive quarter in which revenues and earnings have set record highs over the same period of the prior year.

The company also announced that its Board of Directors declared a regular quarterly cash dividend of \$.04 per share. The dividend is payable October 22, 1982 to stockholders of record October 4, 1982.

For the 40 weeks ended August 1, 1982, revenues increased 19% to \$240,319,116. Net income for the period increased 5% to \$13,953,943, and earnings per share were up 5% to \$.96 compared to \$.77 in the year-earlier period.

For the third quarter, revenues rose 20% to \$79,571,763 and net income increased 20% to \$4,663,508. Earnings per share increased 19% to \$.32 versus \$.27 in the third quarter of last year.

Donald L. Danner, Chairman of the Board of Shoney's, Inc., said, "The 20% gain achieved in net income during the third quarter exceeds the increase recorded in both the first and second periods. This growth reflects the opening of new restaurants as well as a continued strong customer count. In the third quarter, our units averaged 4.6% higher revenue than the second quarter, excluding the effect of increases in menu prices. We expect this trend to continue in the final quarter of this year."

Shoney's, Inc. operates 974 restaurants including Shoney's, Captain D's, Famous Recipe Fried Chicken and a variety of units. The company also has a manufacturing operation for salad dressing and condiments. Shoney's common shares are traded over-the-counter under the NASDAQ symbol SHON.

Contact: Taylor H. Henry, Jr., Shoney's, Inc., 1727 Elm Street, Nashville, TN 37202. Phone: (615) 361-5201.)

UNITED TELECOMMUNICATIONS, INC.
KANSAS CITY, MO., August 9, 1982—The board of directors of United Telecommunications, Inc. increased the company's common stock dividend to an indicated annual rate of 8 cents today. The new rate is an increase of 8 cents over

the annual rate established in August 1981.

United Telecom Chairman Paul H. Henson said the action reflects the board's confidence in the company's growth prospects. The increase marks the 24th consecutive year in which the company's common stock dividend has been increased.

United Telecom's third quarter dividend of 44 cents per share, up 2 cents from the previous quarterly dividend, will be the 150th consecutive dividend paid by the company since 1939. The directors also declared dividends of 37½ cents per share on both the first and second series convertible preferred stock. All dividends will be payable Sept. 30 to holders of record as of Aug. 25.

(Contact: Don Forsythe, United Telecommunications, Inc., P.O. Box 11315, Plaza Station, Kansas City, MO 64112. Phone: (913) 676-3343.)

UTL CORPORATION

DALLAS, TX., August 25, 1982—UTL Corporation (OTC:UTLC) a Dallas, Texas based defense contractor, today reported record earnings for both the fourth quarter and year ended June 30, 1982.

For the year ended June 30, 1982 net income before extraordinary items rose 123 percent to \$1,747,914, or \$.96 per share, on revenues of \$16,680,909. This compares to net income before extraordinary items of \$779,233, or \$.42 per share, on revenues of \$16,341,542 for fiscal 1981.

For the quarter ended June 30, 1982 net income before extraordinary items was \$545,379, or \$.30 per share, on revenues of \$4,680,094 compared to net income of \$265,733, or \$.13 per share, on revenues of \$4,541,940 for the fourth quarter of fiscal 1981.

Dr. C.C. Lee, president and chief executive officer, said "The higher net income is a result of increasing profit margins on our production contracts with the U.S. Government."

UTL CORPORATION			
Year Ended June 30	1982	1981	
Revenues	\$ 16,680,909	\$ 16,341,542	
Inc. bef. extra. item	\$ 1,747,914	\$ 779,233	
Tax benefits of loss carryforwards	216,000	532,000	
Net income	1,963,914	1,311,233	
Preferred dividend requirement	-0-	24,000	
Net income for comm. stk	\$ 1,963,914	\$ 1,287,233	
Av. shares outstanding	1,914,992	1,781,000	
Income per common share:			
Bef. extraordinary item	\$.96	\$.42	
Extraordinary item	.12	.30	
Net income	\$ 1.08	\$.72	
3 Mos. Ended June 30	1982	1981	
Revenues	\$ 4,680,094	\$ 4,541,940	
Inc. bef. extra. item	\$ 545,379	\$ 265,733	
Tax benefits of loss carryforwards	48,000	152,000	
Net income	593,379	417,733	
Preferred dividend requirement	-0-	6,000	
Net income for comm. stock	\$ 593,379	\$ 411,733	
Av. shares outstanding	1,814,992	1,781,000	
Income per common share:			
Bef. extraordinary item	\$.30	\$.13	
Extraordinary item	.03	.08	
Net income	\$.33	\$.21	

(Contact: John Benson of UTL Corporation at 4500 W. Mockingbird Lane, Dallas, TX 75209, or phone (214) 350-7601.)

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Cash hog prices set an alltime record in August, but fundamental forces are not likely to let this rally be sustained.

A PIG TALE

By Stanley W. Angrist



A friend asked me a few weeks ago what I thought looked like a good trade in the commodity markets. I was a little shocked because less than three months earlier he had vowed he was through with commodities, after having been blown away in the grains. On being reminded of his vow, he explained that after the last six weeks in the stock market he needed a little peace and quiet. "In the commodities markets," he said, "at least there are daily limits."

Not that the commodities markets have been going to sleep. There has been enough action in the pits lately to satisfy even the high-risk takers among us. The action being generated in the belly and hog pits has looked especially interesting. First, some fundamentals.

Midwest farmers are faced with a rather interesting decision, as Merrill Lynch Commodities points out in a recent report. Should they sell their corn as grain to their local elevator and receive about \$2 a bushel, or should they hold back some young sows for breeding, with the hope that they can realize the equivalent of \$5 a bushel by feeding that corn to hogs? The \$2 price is what some farmers are being guaranteed for delivery at harvest time

Stanley W. Angrist is a commodity speculator, consultant and longtime observer of the commodity markets.

this fall. The \$5 is based on today's cash price for hogs of around \$60.

At first glance, the decision appears to be an easy one. On closer inspection, it becomes murkier. While it's true that corn prices are not likely to rise much, it is far from certain that \$5 per bushel equivalent will be realized from corn that is fed to hogs. In order to gain that price, hogs will have to sell for about 60 cents per pound by the time they are ready for market. The futures market has anticipated this turn of events, and 1983 hog con-

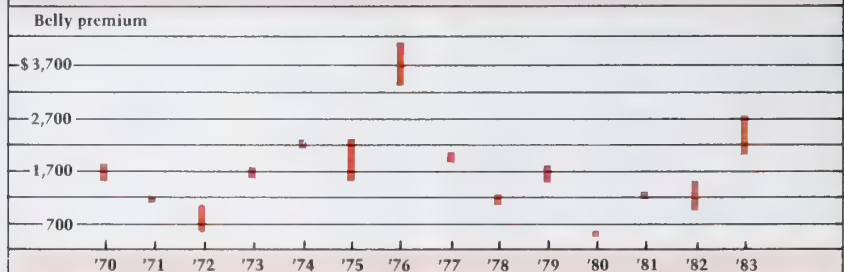
this unusually high ratio will not be revealed until after the USDA's Sept. 22 Hog & Pig Report.

Trade talk at this time is about expansion of hog production, but farmers still view interest rates as high enough to make them cautious about enlarging their herds. Nevertheless, most observers believe there will be no shortage of hogs come 1983. And therein lies the kernel of a trade.

This trade is recommended for high rollers only, as it involves both hogs and bellies. That means there will be plenty of action. There is a very strong tendency for February bellies to increase their margin over February hogs as the fall season begins (see chart). They have done so in every year since 1970. But I would look at this spread from two points of view. If February bellies drop down to no more than 2,100 points over the hogs, I would buy the bellies and sell the hogs. If bellies rise to a margin where they are selling at a 3,000-point-or-more premium to the hogs, I would buy

It happens every fall

For the past 13 years, February belly prices have widened from early August into mid-October. The bottom of the line shows the premium February belly prices commanded over February hogs in early August; the top of the line shows the belly premium in mid-October. The average gain on this trade has been about \$1,000. For the 1983 contracts, the top of the line represents the premium in early September.



Source: Shearson/American Express

tracts are all below 60 cents. The April and June contracts are selling in the low 50s.

And yet the hog/corn ratio in recent weeks has been hovering around 27, a ratio not reached in more than five years. (This is the number of bushels of corn it takes to equal the value of 100 pounds of live hogs.) Normally, farmers become very interested in feeding their corn to hogs when the ratio exceeds about 14. The true effect of

the hogs while selling the bellies. In either case, I would be satisfied with a \$1,500 profit, while I would risk no more than \$800 from my entry level. Keep in mind that the belly contract is 38,000 pounds, while the hog contract is only 30,000 pounds. Thus a better fit on this spread is five hog contracts to every four belly contracts.

The margin on a one-contract-spread basis is \$2,500, the round-turn commission about \$120. ■



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Venture Capital

You have done your homework. You have found the right company to buy. How do you tell what it is really worth?

WHAT PRICE INDEPENDENCE?

By Thomas P. Murphy



How much are small companies worth? The answer used to be 10 times earnings, or about twice book value. But when that convenient rule of thumb applied, you could borrow money from the bank at 5% and buy an ice cream cone for a dime. Today, the first answer to the question is another question: For what purpose?

To secured money lenders—the banks and finance companies—a company is worth what they could realize after liquidating the assets. A troubled small company may be worth even less to the owner. If he liquidates the business, he has to pay off the creditors. That "worth" does tell you something. It is any owner's rock-bottom price. There is little incentive to sell for less. For most people who want to buy companies, these bargain-basement valuations have little relevance. They are reflections of sick companies, and most of us weren't cut out to be turn-around people.

What of something more promising, a solid small company with assets, operating in a mundane industry, a growth record that exceeds the inflation rate and reasonably good earnings? How do you determine your "walk away" price, the maximum price you are willing to pay?

The process of determining price

begins with "normalizing" the company's financial records. Neither the balance sheets nor the income statements of smaller, privately held companies necessarily bear any relationship to reality.

On the asset side, for example, real estate is likely to be undervalued. If it has been on the books a long time, it may be grossly undervalued. Inventories may be overvalued or undervalued depending on the accounting method used (LIFO or FIFO), what kinds of games management is playing with the IRS—underreporting inventory to reduce corporate taxes, or, the reverse, keeping obsolete inventory on the books to make the company look more profitable before selling out.

The income statement is probably no better. The more profitable a small company is, the more likely this is to be true. Small corporation owners lack enthusiasm for income taxation, particularly double income taxation, so salaries to owners, wives and sons-in-law may be well above any reasonable value for services rendered or not rendered. All kinds of perks get squirreled away: automobiles, club memberships, boats, travel, "offices" in Palm Beach, etc. On the other hand, and particularly if a company is being groomed for eventual sale, there are a lot of ways to stimulate short-run apparent profitability. Maintenance can be deferred, advertising budgets cut, training eliminated, R&D cut. "Profit," in the shorter run can be just about any number management chooses.

The challenge for the buyer of a company is to understand the numbers and convert them to conventional business practice. People being people, sellers can be expected to be forthright about hidden assets and underreported earnings. They

Thomas P. Murphy heads a venture capital firm, Partnership Dankist, Stamford, Conn

MONEY & INVESTMENTS

may be less candid about liabilities and overstated earnings. How do you protect yourself?

Your own knowledge of the industry may be the best protection. If you understand an industry, numbers far out of kilter flag themselves. If you don't, a good accountant is the second-best protection. Not the Big Eight kind of accountant. Find someone savvy in the ways of small business. He or she will be a lot more useful. Your accountant, in turn, will probably compare the ratios on the financial statements you have received with industry averages. One source for those averages is the Robert Morris Annual Statement Series. Banks and libraries usually have a copy. If the ratios are out of line, it may be good news or bad, but you will certainly want to know why.

Normalizing doesn't give you a fair market price. All it does is furnish you a more realistic description of what you are buying.

But that still leaves the question of what the business is worth.

There are all kinds of rules of thumb around. If you like greeting card stores, they are supposed to sell for 80% of their annual sales. Service businesses, such as advertising agencies and consulting firms, may be worth 4 to 5 times their aftertax profits. There seem to be norms for the worth of every imaginable business. My advice: Ignore them. Buying a business is too important for Kentucky windage.

Instead, ask your accountant for a valuation formula. If he comes up lame, get a book called *When You Buy or Sell a Company*. It's a three-ring binder affair, so the information is kept current. The author is a Connecticut business broker named Paul Baron, and the style, advice and formulas for valuation reflect the experience of a man who has been around the track. The price is \$85 and the address is: Center for Business Information, Inc., P.O. Box 404, Meriden, Conn. 06450. With Baron's formulas, you can compare seemingly unlike businesses.

But don't get carried away by numbers. You are buying a lifestyle as well as a business. A foundry may be cheaper than a modeling agency with the same profits, but I know people who would still choose models over gray iron castings. ■

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who is somebody in business
who does not read
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Flashbacks

Edited by Dero A. Saunders

"The more things change. . ."

Items from past issues of FORBES

Sixty years ago in FORBES

(from the issue of September 30, 1922)

Are American businessmen noting the political trend? . . . After the excitement of the war there came a reactionary spell. It was during this spell that the Harding Administration was voted into power. Many capitalists made the mistake of concluding that they could again resort to reactionary methods, particularly in dealing with workers and tariff maneuvering. Our business and financial leaders should not ignore or misread the latest primary results, notably in California and Wisconsin, where Hiram Johnson and La Follette have been given enormous votes."

A most delicate situation has been brought about in Europe as a result of the rout of the Greek army and the capture of Smyrna by the Turkish army, under the command of Mustafa Kemal Pasha, the Turkish nationalist leader, and his ultimatum demanding the return to Turkey of all rights, privileges and territory lost in the World War. The British government has declared its intention of resisting with force should the Turks make an attack on Constantinople and has called upon the Dominions and Allies for troops."

"Watch the bubble burst! was the cry when the business depression began. Detroit, the phenomenal, will collapse overnight. Detroit, the one-industry town, is dependent upon the manufacture of a luxury, and luxuries are destined to meet with little favor in the months to come."

"But the bubble did not burst. Detroit did not collapse overnight, nor

over the weekend. Detroit, instead, was the last to feel the depression, suffered less, and recovered sooner than any other large city in the country."

Fifty years ago

(October 1, 1932)

"As goes Maine, so goes the nation, has probably been largely exaggerated by the Republicans because they have generally won such state elections, but the rule has certainly proved a boomerang to that party this year. There was admittedly overconfidence on the part of the Republican Party and good hard work on the part of the Democratic Party, but those factors hardly account for the veritable landslide which the Democrats won in the Maine elections around the middle of the past month."

"What strikes the layman as a serious charge is made against the Associated Gas & Electric Co. of New York by a Federal Trade Commission examiner. He declares that it collected millions of dollars by 'selling to associated concerns the right to collect fees from its subsidiaries for various services. . . .' The executives and directors of Associated Gas should leave no stone unturned to explain to the public most fully and frankly exactly what was done or not done. Rightly or wrongly, the public has developed suspicions that there have been 'rake-offs' by more than one public utility holding company. . . ."

A characteristic of the Great Depression, well known to those in its unrelenting grip, was the tendency of things to keep getting worse after that seemed impossible. Thus a business editor like B.C. Forbes must have got a real jolt from the 1932 Maine election, with its implication of a looming Republican defeat, or the revelation

that the utility holding companies indeed reeked of stock jobbery.

If those were not sufficiently disquieting, he could contemplate the world across the waters, notably Japan openly annexing Manchuria (now renamed Manchukuo), or the murky threat of a Germany (see below) ruled by military adventurers but gradually being maneuvered into the hands of the Nazi barbarians, who

"cried for blood like beasts at night,

Sadly, from bill to bill."

More than in Tom Paine's day, those were times that tried men's souls.

"A new German crisis loomed once more toward the close of the past month in the struggle between Chancellor von Papen and the recently elected and newly convening Reichstag. That body tried to upset the von Papen government, but the latter was too quick and too strong and dissolved the Reichstag first. There were several days when chances for a revolution, or at least a new coup, were better than usual. The situation is still fraught with danger, but at least outwardly Germany appears to have returned to the [old] status. . . ."

Twenty-five years ago

(October 1, 1957)

"The rains came and washed away 12.47% of market value of the S&P 500 stock index in July, August and September. Over the same July 12 to Sept. 23 period, FORBES' index of the 10 largest balanced funds lost only 9.96% of net asset value. On the other hand, FORBES' index of the 10 biggest stock funds, heavily in vulnerable blue chips, dropped 13.18%. The balanced funds, cushioned by heavy fixed income investments, lost a good deal less than the stock funds."



By late 1922 Ford's Highland Park plant, surrounded by the city of Detroit, was already making over 1,250,000 cars a year

The great difficulty in
education is to get
experience out of ideas.
GEORGE SANTAYANA

There's more to be feared from
closed minds than closed doors.
FRANK TYGER

Education is a better
safeguard of liberty
than a standing army.
EDWARD EVERETT

The nation that has the
schools has the future.
BISMARCK

Knowledge is not power
by itself. It becomes power
only when it is applied.
MARTIN S. DANGLER

The course of every
intellectual, if he pursues
his journey long and
unflinchingly enough, ends
in the obvious, from which
the nonintellectuals
have never stirred.
ALDOUS HUXLEY

He who cannot change the very
fabric of his thought will never
be able to change reality.
ANWAR SADAT

Teaching of others
teacheth the teacher.
THOMAS FULLER

We need to teach our children
that they can't cheat. There
is no way to pull it off: You
can't lie to life. You may
deceive your teacher about
what you know, but you can't
deceive life. What you haven't
learned leaves a hole that
nothing but that learning can
fill and no amount of covering
over can disguise.
EDWARD R. SIMS

Thoughts on the Business of Life

*Upon our children—how
they are taught—rests
the fate or fortune of
tomorrow's world.*
B.C. FORBES

Education makes people easy
to lead, but difficult to
drive, easy to govern, but
impossible to enslave.
HENRY BROUGHAM

To bring up a child in the
way he should go, travel that
way yourself once in a while.
JOSH BILLINGS

Almost everything that is
great has been done by youth.
BENJAMIN DISRAELI

Free the child's potential,
and you will transform him
and the world.
MARIA MONTESSORI

Too chaste a youth leads
to a dissolute old age.
ANDRÉ GIDE

In America, the young
are always ready to
give to those older than
themselves the full benefit
of their inexperience.
OSCAR WILDE

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When children become
unimportant to society, that
society has forfeited its future.
L. RON HUBBARD

Everything that looks to the
future elevates human nature.
WALTER SAVAGE LANDOR

The proper time to influence the
character of a child is about
100 years before he is born.
WILLIAM INGE

Our whole life is but a
greater and longer childhood.
BENJAMIN FRANKLIN

History is rapidly becoming
a race between education
and catastrophe.
H.G. WELLS

A Text . . .

It is good for a man
that he bear the yoke
in his youth.
LAMENTATIONS 3:27

Sent in by Robert J. Dean, Columbus, Ohio.
What's your favorite text? The Forbes Scrap-
book of Thoughts on the Business of Life is
presented to senders of texts used.

Life is a school
of probability.
WALTER BAGEHOT

A British scholar remarked
recently that education was
something like the Kingdom of
God in former times. It is
within us and amongst us, yet
it somehow lies ahead. The
elect possess it and hope to
gather in those who are not
yet saved. But what on earth
it is has seldom been made clear.
ROBERT M. HUTCHINS







